

Bank Size Studied In U.S.

Superbanks Could Stand Up Against Foreign Rivals

By Nathaniel C. Nash New York Times Service

WASHINGTON — Officials at the U.S. Treasury Department have concluded that the government should encourage creation of large banks that could better compete with financial institutions in Japan and Europe.

The Treasury plan, which would permit the acquisition of banks by large industrial companies, was also endorsed by Alan Greenspan, in an interview before President Ronald Reagan nominated him last week to be chairman of the Federal Reserve Board.

Mr. Greenspan said that the plan would provide multibillion-dollar pools of investment capital for a banking industry that was "severely undercapitalized."

No formal policy or legislative agenda has been adopted by the administration, but George D. Gould, undersecretary of the Treasury, said in interviews that he favored creating five to 10 giant banks that would rival in size the largest banks in Japan, West Germany, Britain and France.

The formation of such large banks has been hampered by two of the principal U.S. banking laws: the Glass-Steagall Act of 1933, which separates underwriting and commercial banking, and the Bank Holding Company Act of 1956, which prohibits nonbanking companies from owning banks.

The only avenue left open to banks has been to merge among themselves. But state laws have historically prohibited interstate banking, and only recently have state legislatures begun to open their borders to out-of-state banks.

In the administration, the hope is that Congress can be persuaded to loosen the regulations. The banking industry, which has considerable political influence, is divided: The largest banks strongly support the changes while smaller banks

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Kiosk Egypt Detains Fundamentalists

CAIRO (Reuters) — Egyptian police have detained about 500 Muslim fundamentalists in an attempt to solve three assassination attempts in just over a month.

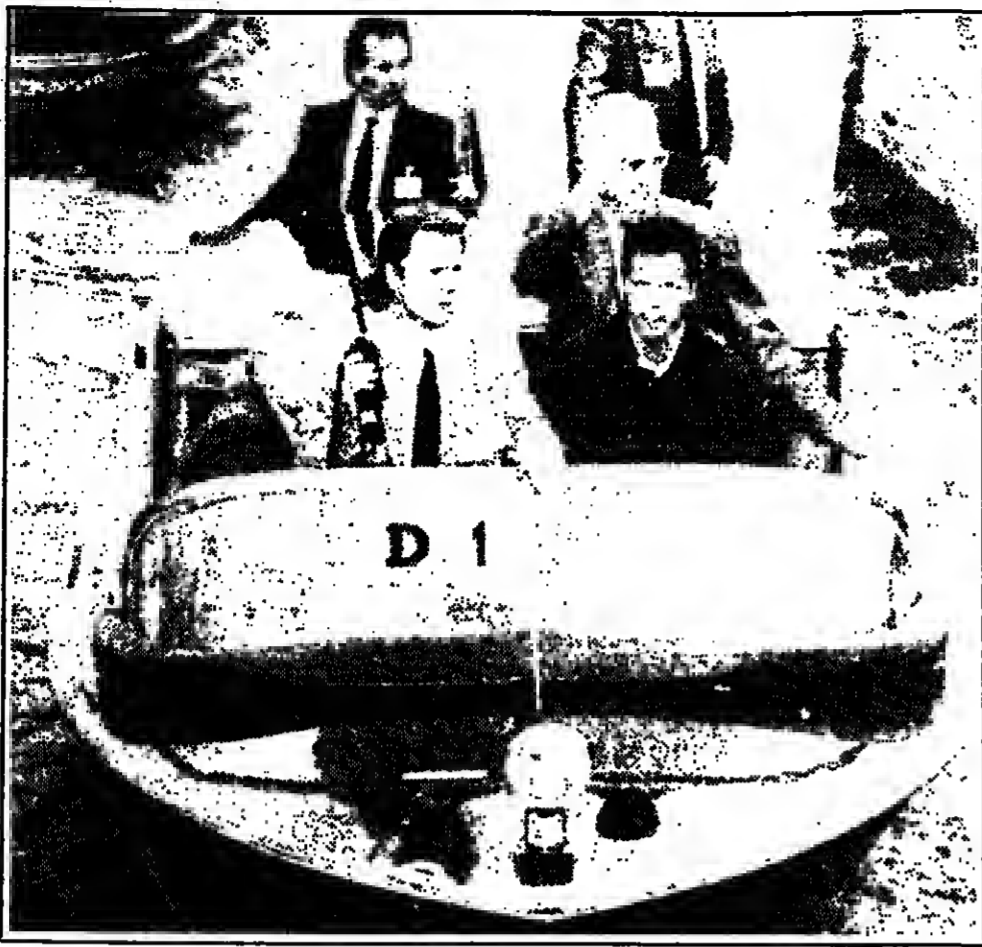
Interior Minister Zaki Badr said Sunday. He pledged to round up all suspects to the recent violence and urged anyone with information to come forward.

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GENERAL NEWS The extent of suffering by Tamil citizens remains unclear following Sri Lanka's offensive in the Jaffna peninsula. Page 2.

BUSINESS/FINANCE The stock market's triple-witching hour will disappear under a new settlement plan for stock index contracts. Page 11.

Special Today Personal Investing takes a look at Tokyo's vibrant Stock Exchange, where investors are "trading in the dreams of a future Japan." Pages 7-10.



Chancellor Helmut Kohl of West Germany waving Sunday as he arrived at his Venice hotel.

In Venice, Pressure on Reagan

Europeans to Push for a More Consistent Foreign Policy

By Jim Hoagland Washington Post Service

VENICE — European leaders, concerned by rapid shifts in U.S. foreign policy goals and methods in recent months, are likely to use the seven-nation summit meeting here to press President Ronald Reagan to show more caution and consistency in world affairs.

The meeting could end up being a "damage-control" mission by European leaders who see Washington's recent handling of U.S.-Soviet relations and the Gulf as erratic and risky, aides to several of the key European participants suggested.

The growing likelihood of a new meeting between Mr. Reagan and the Soviet leader, Mikhail S. Gorbachev, will contribute to political issues dominating the private dinner for the leaders that formally begins the Venice gathering Monday night, according to these aides.

The dinner will provide the leaders with an opportunity to seek an informal joint assessment of Mr. Gorbachev and the changes he is bringing to Soviet foreign and domestic policies, one of the leaders who will be at the dinner has suggested.

Mr. Reagan will be pressing the leaders of Britain, Canada, France, Italy, Japan and West Germany at this summit meeting for an endorsement of his tentative agreement with Mr. Gorbachev to remove medium-range missiles from Europe.

During seven days in the country, the pope is expected to act and speak for Poles' political and national aspirations as he did during his last visit here in 1983, when the nation was ruled by martial law.

But church officials say the 67-year-old pontiff will also be seeking to build on a broader Vatican policy of accommodation with the East bloc and the Soviet leader, Mikhail S. Gorbachev.

Relations between the Polish church and the government of General Wojciech Jaruzelski have been remarkably smooth as the pope's visit neared.

The two sides have agreed with relative ease on such elements of the papal schedule as a meeting with Lesz Walesa, chairman of the banned Solidarity trade union, and a trip to the grave of a slain pro-Solidarity priest, Jerzy Popieluszko.

At the same time, Vatican, Polish church and government officials have been working toward historic agreements that could establish the first full diplomatic relations between the Vatican and a Soviet-bloc government, grant the Polish church full legal status for the first time in 40 years of Communist rule and expand the church's social and economic activities.

None of the prospective accords are expected to be announced during the pope's visit.

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NEWS ANALYSIS

In February by agreeing to accept the elimination of medium-range missiles in Europe. The Reagan administration has since had to push hard to obtain European acceptance of the deal.

Mr. Reagan inadvertently revived concern about his commitment to the Western alliance's standard deterrence policies on Friday in a speech that was televised in Europe.

He suggested in the speech that he was as opposed to nuclear weapons as were the hundreds of thousands of Europeans who marched against the deployment of U.S. Pershing-2 and ground-launched cruise missiles in 1983.

"How I wanted to let them know that my heart was with them, that I too yearned for a day when mankind could live free of the terror of nuclear annihilation," Mr. Reagan said.

The largest marches were staged against the governments of Prime Minister Margaret Thatcher of Britain and West Germany's chancellor, Helmut Kohl, who will be attending this summit meeting, as will President Francois Mitterrand of France, whose support for deployment was vital to Mr. Kohl in overcoming the West German protests.

Mr. Thatcher, who will spend the summit, said she expressed concern at the possibility that Soviet and U.S. armed presence in the Gulf might turn the local war there into a critical Soviet-American issue.

Iran's foreign minister, Ali Akbar Velayati, was in Moscow a few months ago. Mr. Velayati has recently visited Bonn and Rome, where he is known to have expressed concern about growing superpower presence in the Gulf.

Mr. Vorontsov seemed to take this as a good sign, but he did not have any indication of results of Mr. Velayati's visit.

On the prospect of a treaty on intermediate-range missiles, Mr. Vorontsov said that a joint draft just completed still contained many disputed points but that he felt these could be resolved.

He expects a meeting between the Soviet foreign minister, Eduard A. Shevardnadze, and Secretary of State George P. Shultz in Washington late this summer and, if it is successful, a summit meeting to the fall.

Among the outstanding points are where the United States will deploy the 100 intermediate-range warheads to be allowed each side under a new treaty. It has been agreed in principle that Soviet missiles will not be deployed within range of the United States or its allies, including Japan.

But Washington has not yet renounced basing rights in Alaska, which would be within range of Soviet missiles, Mr. Carlucci refused to speculate on the military options. The Washington Post reported last week that one of the options being debated was a pre-emptive strike. Senior officials did not contradict the report but said that Mr. Reagan had not decided on any option yet and that a pre-emptive strike was unlikely.

On a CBS television program, Mr. Baker said that U.S. ships were operating in the Gulf to protect shipping "and the Iranians have nothing to fear from us."

"We have a great deal to fear from them, if they deploy those missiles," he said. "And it's my hope that the Iranians will decide that it's not worth it to deploy those missiles and run the risk of retaliation."

Mr. Baker said the U.S. decision to have a U.S. Navy convoy escort 11 Kuwaiti tankers was not "irrevocable" but that "my own feeling is that it should not be terminated as long as the Kuwaitis want it and as long as the Soviets are still playing in this game."

In an interview with Cable News Network, Mr. Carlucci also discussed the military options. See VENICE, Page 4

Kremlin to Limit Gulf Fleet; U.S., Soviet Discuss Summit

Official Says Entire Force Is 3 Warships

By Flora Lewis New York Times Service

MOSCOW — The Soviet Union has no intention of augmenting its force of three small warships in the Gulf despite its apprehension about U.S. plans to build up its fleet there, according to the first deputy foreign minister, Yuli M. Vorontsov.

In an interview, Mr. Vorontsov said the Soviet Union was aiming for a summit meeting in Washington in October.

He also expressed optimism that Soviet-American differences on a treaty to eliminate intermediate-range and shorter-range nuclear missiles in Europe would soon be overcome.

Mr. Vorontsov, who declined to be quoted directly but authorized use of his remarks, indicated strong Soviet interest in reaching agreements with Washington.

He said that the Soviet Union was engaged in discussions with Iran, Iraq, India and other countries on ways to assure freedom of shipping in the Gulf and the Indian Ocean. He added that the Kremlin had proposed such talks with the United States but had not yet received an answer.

Moscow has had hints that there have been talks between the warring nations of Iran and Iraq on this subject, he said, but apparently they have not reached anything definitive.

Mr. Vorontsov said the Soviet Union would like to pursue consultations with the United States on stopping the Gulf war, providing safety of shipping and assuring that the presence of Soviet and U.S. warships in the waterway would not lead to incidents. Little has been done so far, he said.

It would be hard all around, he declared. If there were to be retaliation for attacks in the Gulf, other officials here have expressed concern at the possibility

that Soviet and U.S. armed presence in the Gulf might turn the local war there into a critical Soviet-American issue.

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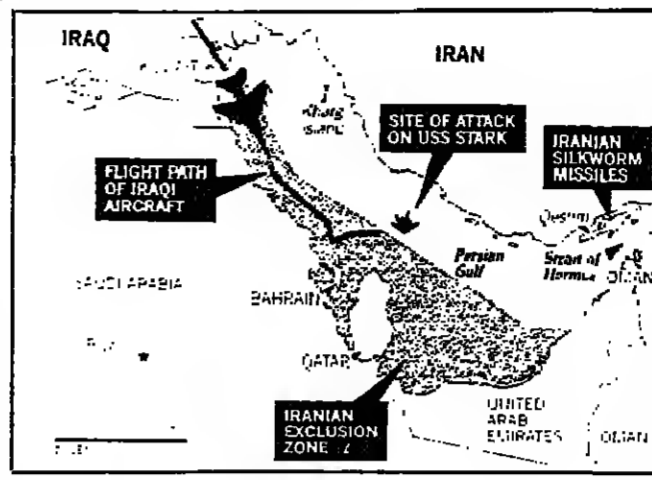
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In an interview with Cable News Network, Mr. Carlucci also discussed the military options. See GULF, Page 4



The Washington Post

White House Cites 'Range' Of '87 Dates

By Lou Cannon and Hobart Rowen Washington Post Service

VENICE — Howard H. Baker Jr., the White House chief of staff, said Sunday that U.S. and Soviet officials had discussed "a range of dates" for a prospective summit meeting in Washington between President Ronald Reagan and Mikhail S. Gorbachev later this year.

U.S. officials continued to warn Iran against interfering with navigation in the Gulf and particularly on using the Silkworm missile against U.S. ships or any oil tankers they escort.

Mr. Baker said "I think there's a good chance there will be a summit yet this year." U.S. and Soviet negotiators reach an agreement on eliminating medium-range nuclear missiles from Europe.

Meanwhile, three high-ranking Reagan administration officials strongly implied that the United States may be ready to lift some of the tariffs imposed on \$300 million worth of Japanese electronics exports to the United States because Japan is showing signs of abiding by an agreement barring the "dumping" or selling at unfairly low cost, of semiconductors.

Although the issue is not expected to be fully resolved in Venice, President Reagan could reveal U.S. intentions to relax sanctions after a meeting Monday with Prime Minister Yasuhiro Nakasone of Japan.

Frank Carlucci, President Reagan's national security adviser, said it would be "inadvisable" for Iran to try to prevent U.S. ships from escorting tankers through the Strait of Hormuz.

"U.S. ships are prepared to defend themselves," Mr. Carlucci said. "They are prepared to defend the ships they are escorting, and it would not bode well if they were to interfere."

Mr. Carlucci refused to speculate on the military options. The Washington Post reported last week that one of the options being debated was a pre-emptive strike. Senior officials did not contradict the report but said that Mr. Reagan had not decided on any option yet and that a pre-emptive strike was unlikely.

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Pope's Polish Visit May Mark an Opening to Moscow

By Jackson Diehl Washington Post Service

WARSAW — Pope John Paul II's third visit to his native Poland, which begins Monday, may mark the beginning of a new era in relations between the Roman Catholic Church and a Communist state based on increased church stability in Poland and the opening of new channels here between Moscow and the Vatican, government and church officials say.

During seven days in the country, the pope is expected to act and speak for Poles' political and national aspirations as he did during his last visit here in 1983, when the nation was ruled by martial law.

But church officials say the 67-year-old pontiff will also be seeking to build on a broader Vatican policy of accommodation with the East bloc and the Soviet leader, Mikhail S. Gorbachev.

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In the Iran-Contra Maze, North Is Central Mystery

By Haynes Johnson Washington Post Service

WASHINGTON — For five weeks, congressional investigators have been learning more and more about the extraordinary activities of the man who isn't there. The more they know of the Iran-contra affair, the more crucial and complicated becomes the role of Lieutenant Colonel Oliver L. North.

"We don't know what he knew when he knew it," said Representative Michael DeWine, Republican of Ohio, who began the hearings as a strong defender of Colonel North. "There's a lot of things we don't know, and so I think we have to reserve final judgment in regard to him."

The select committees investigating the affair will be learning more about Colonel North this week. His former secretary, Fawn Hall, is scheduled to testify about her involvement in helping him alter and destroy White House documents.

The portrait of Colonel North that has emerged from testimony is of a man both admired — even loved, as Albert A. Hakim, a busi-

nessman involved in the affair, said repeatedly last week — and feared.

Colonel North has been established as the person who knows the most about what really happened in the Iran-contra affair, and under what authority. His testimony could save or destroy many of those involved.

Witnesses such as Elliott Abrams, an assistant secretary of State, said he had known North since the mid-1970s.

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Scientists Note Progress In Treatment of AIDS

By Larry Thompson Washington Post Service

WASHINGTON — Although a human vaccine against AIDS is probably years away, significant progress has been made toward developing a variety of drug treatments to help patients already infected, scientists reported at the third international conference on the disease.

More than a dozen new drugs are showing promise against the virus in laboratory experiments. Better therapies are being used to treat the complications of acquired immune deficiency syndrome, such as pneumonia or cytomegalovirus infections. New strategies are emerging on how to rebuild immune systems damaged by AIDS.

Advances in the scientific understanding of the virus and the progression of the disease are enabling physicians to monitor the progress of their patients better and predict the next phases of the disease.

"It is not so much that there are new things, but we are thinking of things in new ways," said Dr. Clifford Lane of the National Institute of Allergy and Infectious Diseases.

One example of a new approach for monitoring the progression of the disease in infected individuals who have no symptoms is just emerging from research. It is based on the production of certain virus proteins in infected persons that have been linked to the development of AIDS symptoms.

One of these virus proteins is called p24. Early in the infection, very little p24 can be found in the patient's blood, but as the disease progresses, p24 levels rise. By monitoring the levels of the p24 protein, Dr. Lane said, physicians could choose that point to begin aggressive treatment with AZT or some other drug.

Current drug therapies aimed at AIDS generally focus on two different strategies: suppressing the AIDS virus in the body and rebuilding the ravaged immune system.

AZT, the only drug approved by the Food and Drug Administration for use in AIDS patients, is only the first of a number of drugs shown to block the virus in the body. In the pipeline are dozens of chemically related drugs, such as dideoxycytidine, that may be more effective or have fewer side effects than AZT. Some of these drugs are about to be tested in human beings.

A number of other drugs, such as interferon and tumor necrosis factor, attack the virus by stimulating the immune system to attack the invader.

"The next most promising drug after AZT probably is alpha-interferon," said Dr. Anthony Fauci, director of the National Institute of Health.

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Peter Green/The Associated Press

Lendl Wins French Open

Ivan Lendl of Czechoslovakia backhanding the ball to Mats Wilander of Sweden, his opponent in Sunday's final of the French Open. Lendl defeated Wilander in four sets. On Saturday, Steffi Graf of West Germany defeated Martina Navratilova of the United States for the women's title. Page 17.

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# Sri Lanka's Northern Offensive

## Extent of Suffering Among Tamil Civilians Still Unclear

By Steve R. Weisman  
New York Times Service

**VALVEDDITURAI, Sri Lanka** — In the dusty courtyard of a Hindu temple, 1,200 women, children and old men stood quietly in line for rations of rice and flour. Their homes had been bombed, and they told stories of hunger, terror and helplessness.

"My son is lost," a gray-haired woman said, sobbing. "My brother-in-law is lost. A thousand of our men are lost. Please help me to find them. Please, please, what can we do to find them?"

Since 1983, this fishing community on Sri Lanka's northern Jaffna peninsula has been a stronghold of Tamil separatist guerrillas. But last week, after the most intense fighting of the war, the town was recaptured by the Sri Lankan Army. The army, like the government, is dominated by ethnic Sinhalese.

The offensive has taken a toll in suffering among Tamil civilians. But a visit Friday to Valvedditturai, the heart of the 20-square-mile (51-square-kilometer) area that was captured by the government, failed to reveal answers to questions about the extent of the suffering.

Such questions lie at the heart of a confrontation between India and Sri Lanka, and are central to the future of the Tamil-Sinhalese dispute.

[The government said that fighting continued Sunday, and that three rebels and a Sri Lankan soldier were killed when gunmen attacked the island's main air force base at Katunayaka, 20 miles (about 32 kilometers) west of Colombo, Reuters reported.]

India sympathizes with Sri Lanka's Tamils because of their Hindu faith and because of ties to 50 million Tamils in southern India.

India continues to assert that the Sri Lankan offensive led to 500 to 600 civilian deaths from "carpet bombing" and other attacks.

The New Delhi government responded by sending aid. The first attempt, on Wednesday, came in an aborted mission by sea; then on Thursday, transport planes

dropped 25 tons of food and medicine to the supposed victims.

Sri Lanka, which has said that 50 civilians died, denounced India for committing a "naked violation" of Sri Lanka's sovereignty. It protested at the United Nations and summoned journalists to Sri Lanka to observe whose claims were correct.

Meanwhile, Sri Lanka stepped up its effort to deliver what it said are thousands of tons of food throughout the peninsula. "Every- one knows there is no food shortage in Jaffna," said Lalith Athulathudali, the minister of national security. "We are the ones aiding people, not the Indians."

Civilians in Valvedditturai said the Indian press's claims of thousands dead were exaggerated but that Sri Lanka's claim was too low.

**"If the boys come back, we will have the same experience all over again. We want to be left alone to live in peace."**

— Syoga Chandra, a school principal

Several residents suggested that the number of people killed was between 200 and 500. Western experts dismissed the likelihood of "carpet bombing" in the area, saying the Sri Lankan Air Force is not equipped for it.

Buildings on Valvedditturai's main street have crumbled walls and roofs — evidence of the government attack. But Sri Lankan officials sought to show that their bombs had been aimed not at terrorizing civilians but at routing guerrillas from a three-mile system of underground tunnels.

The only way to destroy the tunnels was to bomb the whole area, officials said. They noted that to reduce civilian casualties, the gov-

ernment had distributed leaflets urging people to seek refuge in nearby temples, churches and office buildings.

Most of the people interviewed at the temple and elsewhere said they had escaped bombardment because of the leaflets.

Residents said that even after having been routed, the Tamil guerrillas remain popular. But this did not mean they would be welcomed back, some said.

"If the boys come back, we will have the same experience all over again," said Syoga Chandra, a school principal. "We want to be left alone to live in peace."

A group of government officials led by Mr. Athulathudali visited the area on Friday. They found that the biggest grievance was the arrest of about 4,000 young men last week as suspected "terrorists."

In a speech, Mr. Athulathudali sought to soothe the fears of relatives. He promised that several women's organizations would try to arrange for mail service to the detainees while the army worked to determine which ones were "terrorists."

**India Agrees to Consult**  
India, under international criticism for violating Sri Lanka's airspace during the recent airlift, has offered to discuss with Sri Lankan officials any future aid to ethnic Tamils in the country, The New York Times reported from Colombo.

Foreign Minister A.C.S. Hanumanth said Saturday that Sri Lanka welcomed the step.

China and Pakistan, he said, are among the nations that offered support to Colombo after the Indian airlift. He called India's actions a "naked violation of our independence and an unwarranted assault on our territory and sovereignty."

Mr. Hanumanth said the government of Prime Minister Rajiv Gandhi of India turned down a suggestion last week from Sri Lanka's president, Junius R. Jayawardene, to hold the same kind of talks that New Delhi proposed on Saturday.



Neil Kinnock bowling at a Stearnage, England, leisure center. His wife, Glenys, is at right.

# Thatcher Gets Low Marks on Stump, But Polls Still Give Her Solid Lead

By Howell Raines  
New York Times Service

**LONDON** — With three days of campaigning left, Prime Minister Margaret Thatcher is a solid favorite to lead the Conservatives to a parliamentary majority and become the first prime minister in this century to win three consecutive terms.

But as Thursday's voting nears, many independent analysts and strategists in both parties say that Mrs. Thatcher has been outperformed on the stump by her Labor Party opponent, Neil Kinnock.

There is also general agreement that Labor has produced slicker television advertising, better advance work and stronger field organization than the Conservatives.

Strategists on both sides, however, said that Britain's improving economy and Labor's unpopular plan for nuclear disarmament seemed to have put a cap on Mr. Kinnock's support.

Opinion surveys also indicated that Mr. Thatcher's stronger leadership image was helping her sustain what has so far seemed a solid lead amounting to about 7 percentage points in the major public-opinion polls in the past week.

A series of new polls published on Sunday put her as many as 11 percentage points ahead.

On average, the polls in the past week put the Conservatives at 43 percent, Labor at 34 percent to 36 percent, and the centrist Alliance grouping of the Liberal and Social Democratic parties at 21 percent.

A popular vote on that order would produce a parliamentary majority of 40 to 50 seats for Mrs. Thatcher, compared with the 144-seat majority she won in 1983.

On Monday afternoon, Mrs. Thatcher was scheduled to start a 24-hour break from campaigning for the economic meeting of the seven leading industrialized democracies in Venice. Conservative strategists are counting on her appearance to portray her as a major world figure and provide a late lift to a lackluster campaign.

Labor has accused Mrs. Thatcher of going to Venice merely to provide television footage for her campaign broadcasts.

Mr. Kinnock's final campaigning will be geared to television. Labor scheduled a rally of show business figures on Sunday, to be followed Monday by a television film about Mr. Kinnock made by Hugh Hudson, the director of "Chariots of Fire."

Aides to Mrs. Thatcher did not dispute press reports that described her as being furious about the leader's quality of the campaign films produced by her advertising agency, Saatchi & Saatchi.

"Clearly Labor has won the campaign in terms of professional organization and presentation," said John Curdick, a political scientist at the University of Liverpool. "But their impact has not been dramatic. It's got them back up to where they ought to have been to start with, around 35 percent."

Mrs. Thatcher's chances have also been helped by the erratic performance of the Alliance grouping, the Liberals led by David Steel and the Social Democrats. Their standing at the start of the campaign raised the prospect that Mrs. Thatcher might be removed by a three-way split, denying any party a majority in the 650-seat House of Commons.

"We are 10 points ahead," she said, taking a figure from one of the most favorable recent polls. "We do hope, it's quite true, to widen the gap to more than that in the coming week. I don't expect a bung Parliament."

If Mrs. Thatcher is to be upset now, the shift will have to come in the 150 to 200 battleground districts, or marginal constituencies. Both Conservative and Labor strategists regard the contest as already decided in the other 450 to 500 constituencies, with Labor strong in the north and the Conservatives in the south.

Conservative strategists said that Labor had edged ahead in some marginal constituencies.

"We believe the swing to Labor is not enough to win more than 40 or 50 of them," said Robert D. Waller of Harris Research, a pollster for the Tories. "But that could reduce the Conservative majority from 140 to 40 or 50."

Increasingly, both parties are watching the Midlands, historic Labor territory that has been sliding toward the Conservatives. Late trends there could tell whether Mrs. Thatcher's lead, once as high as 14 percentage points, is continuing to diminish.

One such district, on the southern fringe of the Midlands, is Oxford East.

There, Labor is battling to recapture a seat narrowly won by the Conservatives in 1983. At a recent Labor meeting, Gary Vogt, a nurse making about \$15,000 a year, told how Mr. Thatcher's program of "popular capitalism" had shaken the political loyalty acquired from growing up in a "family of Labor people."

"I'm in a dilemma," he said, describing himself as torn between his "moral standing" as a nurse who agreed with Labor's social policies and his desire to protect his \$38,000 home and the Kolls-Royce shares he purchased when the Thatcher government privatized the company.

France won't try Soviet woman

ROUEN, France (Reuters) — An examining magistrate has dropped spying charges against a Soviet woman implicated in an alleged attempt to steal French space secrets, judicial sources said Saturday.

The magistrate, Elisabeth Senat, ruled Friday that charges should not be pressed against Lyudmila Varygina, 31, one of seven people arrested in March for allegedly selling secrets about a booster motor for the European Ariane rocket. Charges against Varygina's husband, Pierre Verdier, are still pending.

The state prosecutor has asked the court for the death sentence, saying there were no extenuating circumstances for crimes committed during his 13-year reign. Mr. Bokassa, who was toppled in a 1979 coup, returned home last October from exile in France. His trial began in November.

Jackson disavows Farrakhan support

WASHINGTON (LAT) — The Reverend Jesse W. Jackson says he would not accept the political support of Louis Farrakhan, the Black Muslim leader whose vitriolic remarks about Judaism and Hitler drew criticism to Mr. Jackson's 1984 campaign for the Democratic presidential nomination.

"Some of his positions are anti-Semitic," Jackson, a civil rights leader, said Friday in response to questions. "And it is fair to say that we must stand against anti-Semitism and racism and bigotry and sexism."

"We do not accept Farrakhan's support," Mr. Jackson said. "We haven't sought his support. He is not a factor in our campaign." In 1984, Mr. Farrakhan publicly described Adolf Hitler as "a great man" and called Judaism "a dirty religion."

For the Record

Representative Patricia Schroeder, Democrat of Colorado, said Friday she was considering becoming a candidate for the Democratic presidential nomination. Ms. Schroeder, 46, an eight-term congresswoman, had been a supporter of Gary Hart, who withdrew his candidacy after his relationship with a Miami woman was disclosed. (NYT)

Travel Update

French air controllers have announced that they will continue striking on Tuesday after negotiations between civil aviation authorities and unions broke down Friday night. The controllers have been striking from 6:30 to 9 A.M. for seven weeks, except on weekends and holidays, over benefits and work load. Monday is a holiday in France. (AFP)

The possibility of compulsory AIDS testing for travelers from the United States, Haiti, Brazil and Africa is under consideration by the Colombian Health Ministry, sources said Saturday. Visitors would have to present a medical certificate declaring themselves free of the AIDS virus or be tested at the airport. (AFP)

The wife of a Continental Air Micronesia employee and a customs worker were arrested in Guam on Saturday, bringing to 34 the number of arrests in connection with a series of thefts from luggage at Guam International Airport. Twenty-four of those arrested are Continental employees. (AP)

This Week's Holidays

Banking hours and government services will be closed or curtailed in the following places this week because of national and religious holidays:

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WEDNESDAY: Argentina, Jordan, Macao, Malaysia, Portugal.

THURSDAY: Libya, Sri Lanka.

FRIDAY: Paraguay, Philippines.

SATURDAY: Hong Kong, Portugal.

Source: Morgan Guaranty Trust Co., Ramat.

# Soviet Interests Asians in Satellite Launch

By Michael Richardson  
International Herald Tribune

**SINGAPORE** — Australia and Indonesia, two of the main satellite users in the Asia-Pacific region, have expressed interest in proposals by Moscow to provide commercial launch services in competition with the United States, Western Europe and China.

Western diplomats see the offers of space cooperation as part of a wider effort by the Soviet Union to improve relations with the Asia-Pacific region and erase its image as an assertive military power.

One diplomat commented Thursday: "The Russians know they cannot match Japan, America and Europe in trade and investment. So they are concentrating on a high-tech sector where they feel they can really compete — space services."

A spokesman for Australia's national satellite system, Aussat Pty. Ltd., contacted by telephone in Sydney, said that a Soviet delegation had told the company last month that it could provide launch services on attractive terms for two large communication satellites Australia wants to place into orbit

in the early 1990s. The satellites will serve the southwest Pacific and New Zealand as well as Australia.

The spokesman, Leighton Farrell, Aussat's public affairs manager, said the company, which is 75 percent owned by the Australian government, had been impressed with the serious commercial approach adopted by the Soviet officials.

But he said that at least four other groups were also interested and it would be up to the successful bidder for the new satellite order to make launch arrangements.

The four are Arianespace, the commercial arm of the European Space Agency, China's Great Wall Industry Corp. and two U.S. companies that are planning to establish satellite launching facilities, McDonnell Douglas Corp. and Martin Marietta Corp.

Achmad Tahir, Indonesia's minister of tourism, post and telecommunications, said Wednesday that the Soviet Union had offered to launch a satellite that Jakarta had asked the United States to put into space in 1990 at the latest.

Soviet officials said offers of peaceful cooperation in space had also been made to other non-Communist countries in ASEAN, the Association of Southeast Asian Nations. In addition to Indonesia, they are Brunei, Malaysia, the Philippines, Singapore and Thailand.

Analysts noted that while international demand for satellite launches was increasing, the U.S. National Aeronautics and Space Administration had sharply reduced its commercial launch work and Arianespace was heavily booked over the next few years.

The European program has been grounded since May 1986, when

the third stage of an Ariane rocket failed to fire. Officials had to destroy the rocket and the \$90 million satellite it was carrying.

Following the explosion of NASA's manned space shuttle, the Challenger, with the loss of seven astronauts in January 1986, President Ronald Reagan said in August that with few exceptions commercial satellites would no longer be launched by the shuttle.

Mr. Tahir said that Vladimir Semenov, the Soviet ambassador to Indonesia, had relayed Moscow's offer to launch the satellite, which would be Indonesia's third, at a cost of \$40 million.

He said that Indonesia wanted favorable financial terms "in the form of a non-commercial loan" and that Mr. Semenov had promised to discuss this with his government.

Nikolai I. Ryzhkov, the Soviet prime minister, said Jan. 5 that his government was prepared to grant "substantial discounts" to developing countries using satellite launching services in the Soviet Union. It would also insure the payloads, he said.

Analysts said the main barrier to Soviet efforts to gain a substantial slice of the growing commercial launch market was restrictions imposed by the United States on technology transfers. U.S. regulations

prohibit satellites employing American technology from being shipped to the Soviet Union.

Most satellites made in non-Communist countries contain U.S. parts or technology. The four Australian and Indonesian satellites currently in orbit were made by U.S. companies.

Diplomats said that while Indonesia appeared to be genuinely interested in the Soviet offer, Jakarta was probably publicizing its interest to put pressure on the U.S. government for favorable consideration of its request for access to the shuttle service.

Mr. Tahir said the Soviet offer to Indonesia was coupled with a request to reopen an office of the Soviet state airline, Aeroflot, closed in 1982 after its chief representative was expelled on spying charges.

Mr. Farrell, Aussat's public affairs manager, said Australia's third communication satellite was to be launched aboard the next Ariane flight, tentatively scheduled for August. He said Aussat would seek offers later this year for a second generation of communication satellite, to be launched beginning in 1991.

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# Chirac Acts to Defuse Cabinet Crisis

## His Authority Appears Weakened in Dispute With Léotard

By Julian Nundy  
International Herald Tribune

**PARIS** — Prime Minister Jacques Chirac moved Sunday to defuse a cabinet crisis caused by the near-defection of the culture minister, but his authority appeared to have been severely weakened by strains within his center-right coalition.

Mr. Chirac, reacting to an announcement by Culture Minister François Léotard that he would stay in the government, welcomed the decision, although Mr. Léotard had indicated that he was defying an earlier demand by the prime minister for total loyalty.

The affair blew up last week when Mr. Léotard, 45, said in a magazine interview that, as a leader of the Union for French Democracy, he would not campaign for Mr. Chirac, a Gaullist, in the first round of presidential elections in 11 months.

Mr. Léotard, the unofficial leader of a group of young ministers in the government known as "Leo's gang," also said that he may run in the 1988 presidential race, although polls indicate that he has little grass-roots support.

On the face of it, there was little unusual in Mr. Léotard's words as his political grouping, an alliance of several parties, is likely to field at least one presidential candidate of its own despite its place in the government alongside Mr. Chirac's Rally for the Republic.

But his tone, including a reference to the Gaullists as "soldier monks" or crusaders, irritated many supporters of Mr. Chirac. The prime minister summoned Mr. Léotard on Tuesday and issued a public communiqué saying that he had told Mr. Léotard to choose

# Iran Expels Five British Diplomats

By Karen DeVyoung  
Washington Post Service

**LONDON** — Iran ordered the expulsion of five British diplomats Saturday, including Edward Chaplin, the No. 2 man in Britain's Tehran mission who was detained and beaten by Revolutionary Guards on May 28.

The Iranian press agency said the move was in retaliation for Britain's "unjustified" expulsion Thursday of five diplomats assigned to the Iranian consulate in Manchester. The consulate was ordered closed.

Although British officials had said that any retaliation by Iran would be unacceptable, they appeared somewhat relieved that Mr. Chaplin, described as a "criminal" by the speaker of the Iranian Parliament, Ali Akbar Hashemi Rafsanjani, would be returning home.

There were fears that as long as Mr. Chaplin remained in Iran, the situation could escalate dangerously, possibly leading to a storming of the British diplomatic mission or the residential compound.

The charges against Mr. Chaplin, although never lodged formally, were said by the Iranians to include drugs, corruption and undermining the economy during wartime, which can carry the death penalty.

Officials in Britain refused to speculate on whether action would be taken against the 19 diplomats in Iran's London Embassy.

Since Britain closed its embassy in Iran in 1980 for security reasons, it has maintained an interests section, with 19 accredited diplomats, under the Swedish flag in Tehran.

Soviet Conducts Nuclear Test

MOSCOW — The Soviet Union conducted an underground nuclear explosion Saturday at the Semipalatinsk test site in the Central Asian republic of Kazakhstan, the official news agency, Tass, reported.

# WORLD BRIEFS

## Deposed Fijian Leader Seeks U.K. Aid

LONDON (AP) — Fiji's deposed prime minister, Timoci Bavadra, arrived here on Sunday seeking help from Queen Elizabeth II, the former colony's ceremonial head of state, to regain power. Buckingham Palace officials said the queen would not see him but he would be permitted to meet with her private secretary.

"She is my queen, she is the queen of Fiji, so she at least has to listen to me," Mr. Bavadra said at Heathrow Airport.

His elected administration was overthrown May 14 in a coup. Mr. Bavadra's government was dominated by ethnic Indians, who make up a little more than half of Fiji's population of 715,000.

## Senate Winners Named in Philippines

MANILA (AP) — The Philippine Commission on Elections has declared 20 winners in Senate elections. Nineteen of them were candidates supported by the administration.

A movie actor, Joseph Estrada, was the only opposition candidate to gain a Senate seat. If projections hold, President Corason C. Aquino's coalition will hold at least 22 Senate seats and more than 130 of the 24 seats in the House of Representatives. Voting for the House was by district.

The races for the four remaining Senate seats remained too close to call, the commission reported Saturday. The elections took place May 11. The former defense secretary, Juan Ponce Enrile, head of the opposition Grand Alliance for Democracy, was in twenty-second place in the balloting and could capture one of the remaining slots.

## Soviet Poet Stripped of Citizenship

MOSCOW (WP) — The Supreme Soviet has revoked the citizenships of a dissident poet, Irina Ratushinskaya, and her husband for "defaming the great name of the Soviet Union," according to a decree released here Saturday.

She was arrested in 1982 for distributing "anti-Soviet propaganda," imprisoned in 1983 after she was found guilty of slandering the state, and pardoned by the Supreme Soviet in October. She had been allowed to travel to the West with her husband, Igor Gerashenko, for medical treatment.

Meanwhile, Ruth Bonner, 86, the mother-in-law of the Soviet physicist, Andrei Sakharov, returned in live in the Soviet Union after seven years in the West.

## Bokassa Reiterates His Innocence

BANGUI, Central African Republic (Reuters) — Jean-Bédel Bokassa, the former self-proclaimed emperor of Central African Republic, has pleaded not guilty to the crimes for which he is being tried and stated that his only wish is to live in peace as an ordinary citizen.

Mr. Bokassa, 66, is standing trial on several charges, including assassination, cannibalism and embezzlement. In a final statement to the court on Saturday, Mr. Bokassa said that as head of state at the time of the crimes, he took moral responsibility for them, "but I assure you that I am innocent of the crimes of which I am accused."

The state prosecutor has asked the court for the death sentence, saying there were no extenuating circumstances for crimes committed during his 13-year reign. Mr. Bokassa, who was toppled in a 1979 coup, returned home last October from exile in France. His trial began in November.

## France Won't Try Soviet Woman

ROUEN, France (Reuters) — An examining magistrate has dropped spying charges against a Soviet woman implicated in an alleged attempt to steal French space secrets, judicial sources said Saturday.

The magistrate, Elisabeth Senat, ruled Friday that charges should not be pressed against Lyudmila Varygina, 31, one of seven people arrested in March for allegedly selling secrets about a booster motor for the European Ariane rocket. Charges against Varygina's husband, Pierre Verdier, are still pending.

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Source: Morgan Guaranty Trust Co., Ramat.

**THE GROSVENOR HOUSE ANTIQUES FAIR**

**10-20 June 1987**  
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10 June: 5.00 p.m. - 8.00 p.m. Weekends: 11.00 a.m. - 6.00 p.m.  
Other days: 11.00 a.m. - 8.00 p.m.

Children under 5 years of age will not be admitted.  
Admission price inclusive of Handbook: £8.00.  
\* Charity Preview: 9 June 7.00 p.m. - 9.30 p.m. Tickets: £50.  
\* Lectures (16, 17, 18 June): £11 per lecture.  
Enquiries: Telephone: (0789) 28899.



François Léotard, announcing he would not resign from the government.

**UNIVERSITY DEGREE**

BACHELOR'S • MASTER'S

# Costs, Threat of AIDS Will Be a Major Topic At the Venice Summit

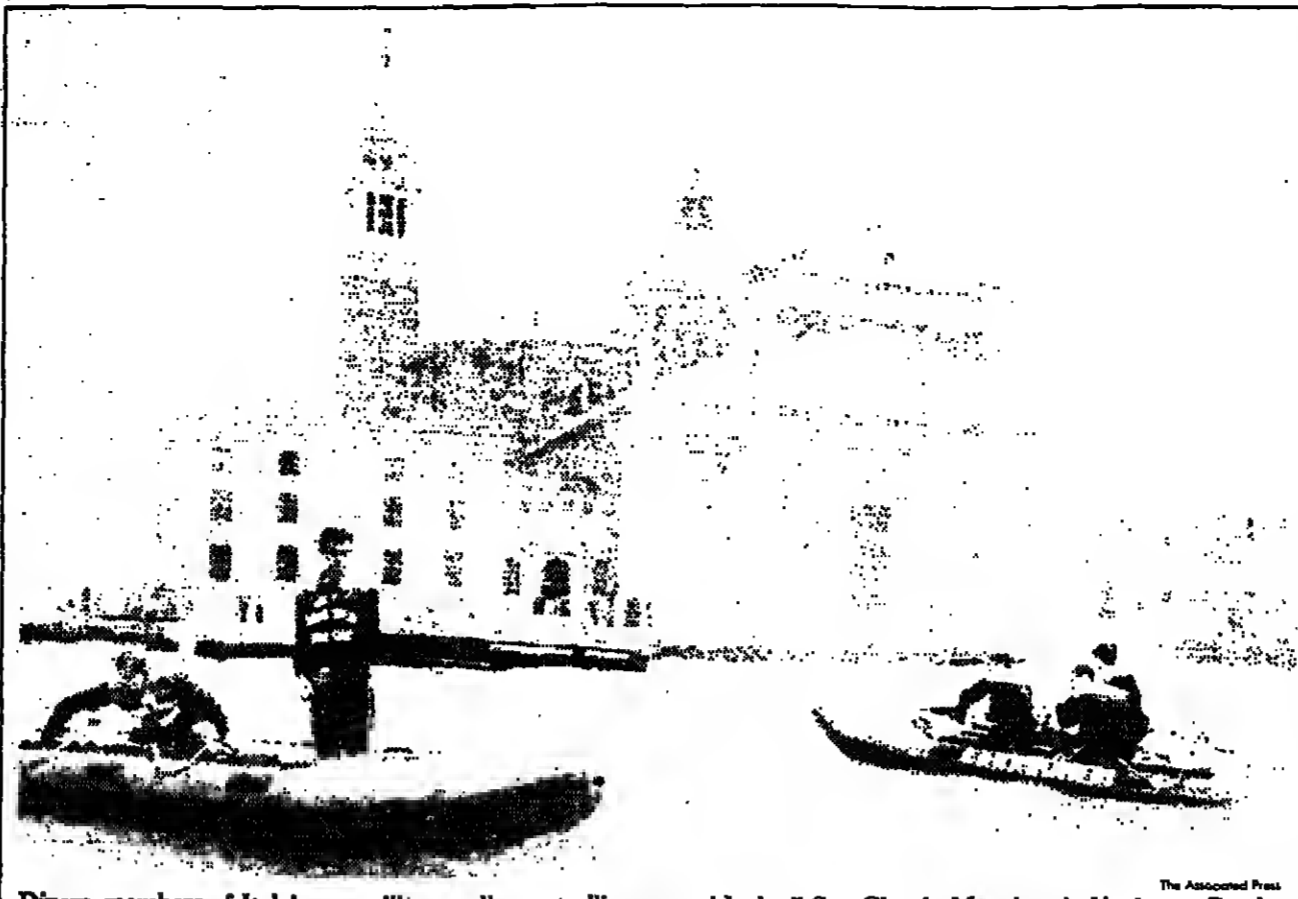
By Barry James  
International Herald Tribune  
When the heads of state and government of the seven industrial powers sit down Monday in Venice for the 13th such summit meeting, AIDS will be a major item on the agenda as potentially one of the biggest social, political and economic—as well as health—problems of the end of the century.

Two years ago, it would have been difficult to imagine the summit discussing AIDS, said Jonathan Mann, the director of the Geneva-based World Health Organization's Special Program on AIDS. Acquired immune deficiency syndrome, which breaks down the body's immune system and leaves the victim helpless against infections, began appearing in the United States in the early 1980s after a probable incubation period of at least five years. It first afflicted mainly homosexuals, intravenous drug users and people who received transfusions of blood tainted with the virus.

tered a worldwide total of \$1,535 officially reported cases of AIDS, including 36,000 in the United States.

WHO says the actual number of cases worldwide is probably more than 100,000 now, and that even in the unlikely event that a vaccine were developed immediately, up to 3 million new cases are likely to emerge in the next few years. The organization estimates that up to 10 million people were infected with the virus that causes AIDS by the end of last year. Several million of them are in Africa, where the disease, more frequently than elsewhere, is passed through sexual relations between men and women.

Estimates differ as to what percentage of infected persons eventually develops the disease, but all can potentially pass the infection to other people. By 1991, the number of cases in the United States alone is expected to hit 270,000; in Europe, 100,000. In Africa, because of incomplete reporting, no one knows. Figures such as these put the problem firmly within the purview of an economic summit meeting, because the disease is likely to have a major impact on the world economy and demographic patterns. The disease strikes hardest at the most productive sectors of society. In the United States, 90 percent of the victims are between the ages of 20 and 49. In Africa, WHO officials say, a fifth of professional people could succumb to AIDS. "This raises questions such as, will AIDS strip certain professions of young people in the United States and other countries? Will banks be willing to invest in African enterprises knowing them to contain a high proportion of infected people? How will it be possible to pay the cost of treating the disease on a massive scale? It costs up to \$150,000 to treat each patient in the United States. In Africa, where the average per capita annual health budget is only about \$1.75, adequate treatment of AIDS already is impossible.



Divers, members of Italy's paramilitary police, patrolling around Isola di San Giorgio Maggiore in Venice on Sunday.

## Canals Complicate Security Problems at Venice

By John Tagliabue  
New York Times Service  
VENICE — In recent days, aboard a lumbering armored launch that flew the Stars and Stripes, a Venetian pilot instructed an American Navy helicopter in the art of maneuvering in the choppy Venetian waters. The point of the lesson was to avoid the kind of incident that occurred at the economic summit meeting in Venice in 1980, when a jolt to the yacht on which President Jimmy Carter was riding nearly tossed him into the murky waters. The city of canals is a unique conference site. Also unique are the security problems faced by the organizers of the talks beginning here Monday. An Italian security force of about 8,000 people will include a detachment of frogmen, reinforced by hundreds of security men from Western Europe, the United States and Japan. The leaders of the United States, Japan, West Germany, France, Britain, Italy and Canada will hold their three-day conference

on the Isola di San Giorgio Maggiore, a small private island across the lagoon from St. Mark's Square. Helicopters can land on the island, but the leaders will be brought to the site in motor launches. To insure safety, gondolas and other unauthorized craft will be banned from waters between St. Mark's and the island and its approaches. But this is vital turf for the gondoliers, the gondola operators, who have threatened to bill the city for \$150,000, money they say they are losing through forced inactivity. The gondolieri have been losing ground to the motorboat taxis that are increasingly attracting all but the most sentimental tourists. But taxi operators are not bappy either. The entire fleet of about 220 vessels has been pressed into service by summit organizers at a rate the operators say is far below the market price. The participating nations did not hesitate to send their leaders to Italy. Though the country has been rocked by political violence

and Arab terrorist actions in recent years, there have been few violent crimes recently. In March, however, terrorists gunned down an Italian Air Force general on a Rome street. Last week, as if to display their control of events, the police announced the roundup of several terrorist leaders. On Friday evening, the Venice airport was closed for one week to unauthorized traffic. And the lagoon, two days before the conference, vaguely evoked New York's Brooklyn Navy Yard. Italian and American Navy launches plied the waters, and two Italian warships lay at anchor near an American vessel. Police helicopters circled the city, and armed vessels of the Guardia di Finanza, or Treasury Guard, a paramilitary force specializing in smugglers, circled Isola di San Giorgio Maggiore. The greatest concern appeared to focus on the safety of President Ronald Reagan. Saturday, as the president traveled to Rome, Italian officials mobilized 5,000 men to protect him.

# Secord Denies Profiting From Iran Arms Sales

In interview, He Calls for a Chance To Testify Again to Refute Allegations



Richard V. Secord

By Stephen Engelberg  
New York Times Service  
WASHINGTON — Richard V. Secord, responding to a barrage of congressional criticism, has insisted that he made no money from the Iran arms sales. He said he was eager to reappear before the congressional committees investigating the Iran-contra affair to tell his side of the story. "I'm not a profiteer, and to keep on claiming that is simply false," he said in an interview Saturday. "We were trying to do a job for the president, and we did the best we could." Members of the congressional committees say they have been working hard to establish that General Secord, a retired air force major general, made money on the arms sales because it illustrates a central theme of the hearings: that using private citizens in covert operations leads to waste, profiteering and other abuses. Some members of the committee said last week that Major Secord should be recalled for further sworn testimony in light of evidence that he used money from the sales of arms to Iran and Nicaragua for personal purposes, including the purchase of a Porsche and an airplane. In the interview, General Secord said he had bought the car and the airplane but that the money had come from a loan from his business partner, Alben Hakim, and from a separate consulting fee. He said he did not know that Mr. Hakim had tapped accounts used for the Iran-contra arms dealings. General Secord also made these points: He denied charges that he and his business associates had made profits of 60 percent or more on arms sales to the Contras, as stated in a handwritten document describing one of several transactions. He said that he and his attorney were preparing an

accounting of all \$11 million in sales, which would show the overall markup at 20 to 30 percent, as he has testified. He offered support for the committee's suspicions that Lieutenant Colonel Oliver L. North's wife, Betsy, had gone to Philadelphia to meet with a lawyer who was trying to find a legitimate way to transfer money to the North family. Nothing came of the trip, and he said that Colonel North later called it "a waste of time and a train ticket." He said he signed a waiver last week that will allow congressional investigators to inspect any bank accounts he has in Switzerland. The committee had been demanding the waiver and General Secord had delayed it for several weeks, although he said he has no Swiss bank accounts. ■ 3 More Israelis Are Called The special prosecutor in the Iran-contra affair has issued subpoenas for three more Israeli citizens, prompting a new round of protests from the Israeli government, U.S. and Israeli officials told The New York Times. Israeli officials said they were angered by the subpoenas and indicated that they might end cooperation with the special prosecutor, Lawrence E. Walsh. Among those newly subpoenaed, they said, was Al Schwimmer, an Israeli businessman who was instrumental in the clandestine transfer of American arms to Iran. The other Israelis were reported to be Jacob Nimrodi, an Israeli arms dealer, and Amiram Nir, who served as a counterterrorism specialist in the Israeli government. Both were involved in the Iran arms sale. Mr. Walsh created a diplomatic furor last month when he subpoenaed David Kinchev, the former director general of the Israeli Foreign Ministry, who helped broker the sale of U.S. weapons to Iran through Israel. Mr. Kinchev was allowed to return to Israel without testifying before the grand jury in the case but promised to return if so ordered by a federal court. University Club in N.Y. Votes To Admit Women NEW YORK — The 122-year-old University Club, the largest all-male club in New York City and one of the most prestigious, has voted to open its membership to women. The New York City Human Rights Commission brought discrimination charges against the University Club and two others 18 months ago, and, according to a spokesman Saturday, were preparing to hold a public hearing on those charges by the end of the summer. The University Club has 4,000 members.

# U.S., in Random Survey, to Test 45,000 for AIDS

By Lawrence K. Altman  
New York Times Service  
WASHINGTON — The government has announced that it will take random blood samples from about 45,000 people around the United States as part of a national survey to determine the number of Americans infected with the AIDS virus. Participation is to be voluntary and anonymous. Dr. Otis R. Bowen, the secretary of Health and Human Services, told participants Friday at an international conference here on AIDS that the government also planned to begin a campaign to educate the public about ways to prevent the spread of acquired immune deficiency syndrome.

The campaign will be aimed particularly at people of school and college age. In addition, Dr. Bowen said, a federal study will look into the care of AIDS patients, and special projects will be undertaken to reach and counsel intravenous drug users, who are considered the likeliest conduit of the virus to the heterosexual population. Dr. Bowen said that the chief aim of the blood survey would be "to find out the total extent of the AIDS problem" and "the distribution of the virus." Government officials have estimated that 1.5 million Americans are infected with the AIDS virus, although many have not yet developed symptoms.

Dr. James O. Mason, the head of the national Centers for Disease Control, said health officials need the survey to enable them to calculate more accurately how many Americans were infected. If the surveys are repeated, they can help assess the effectiveness of education and information programs to determine how many Americans are contracting the deadly viral infection. Dr. Bowen said the 45,000 people would be selected from throughout the population. Dr. Mason said that officials of the Centers for Disease Control were working with biostatisticians and experts in conducting random samplings to determine "how we

can truly get a representative sample of the nation's population." He said at least six months' preparation would be required before the study could begin. He said the task would be difficult because health officials would have to assure themselves that enough members of the groups considered at high risk of contracting AIDS were included in the sample. Homosexual men and intravenous drug users are believed to account for about 90 percent of all reported AIDS cases in the United States. Dr. Mason did not elaborate on his comments that the survey would be conducted on an anonymous basis with voluntary participation.

# Nicaragua To Cut Back On Fuel Use

By James LeMoyné  
New York Times Service  
MANAGUA — Nicaragua's president, Daniel Ortega Saavedra, has announced a curbs on fuel use and warned Nicaraguans of the need for more severe economic restrictions because of the growing cost of the civil war. A central, though contested, tenet of the Reagan administration's policy in backing the contra rebels is that the Nicaraguan government will not be able to survive the economic cost of the war and that the Nicaraguan people will consequently demand political changes. Mr. Ortega made his call for further economic restrictions at a national meeting of labor union leaders Saturday after several unconfirmed reports that the Soviet Union might reduce the amount of oil it supplies. Nicaragua is almost totally dependent on Soviet oil and lacks hard currency reserves to buy oil on the world market, so any curbs would have severe results. Mr. Ortega did not refer to any potential Soviet reduction in oil, but he did refer to fuel shortages. He said there would be a 5 percent curbs in the use of oil and an unspecified increase in the price of gasoline. Tomás Borge Martínez, the minister of the interior, is visiting Eastern Europe, and some Western diplomats here have speculated that he may be seeking an increase in economic and other types of assistance. Nicaragua's economy has been ravaged by government mismanagement, falling prices for agricultural exports and the U.S.-backed guerrillas, who have increasingly concentrated on economic sabotage. There are shortages of most products, inflation is out of control, and as much as half of state spending is estimated to go to the war effort and the army and militia, which number more than 100,000. Nicaragua's currency, the córdoba, has declined in value from 4,000 córdobas to the dollar on the black market six months ago to almost 7,000 today. The Soviet Union and its allies now provide most of Nicaragua's economic and military aid, which U.S. officials put at a billion dollars last year. Moscow provided an estimated \$86 million in oil to Nicaragua in 1986 alone. Mr. Ortega said measures would be introduced to assure fuel reserves for state agencies and the military. The growing war has placed heavy demands on fuel supplies as the Nicaraguan Army flies more helicopter sorties and uses more trucks to take troops into the field. But even as he acknowledged the increasing cost of the war and the need for further economic restrictions, Mr. Ortega repeatedly and angrily vowed that the rebels would never win and that his government would never negotiate internal political questions with the rebels or with the U.S. government. But he added that Nicaragua had always been willing and remained willing to negotiate security issues with the United States.

# U.S. Poll of Europeans Credits Soviet on Arms

By Michael R. Gordon  
New York Times Service  
WASHINGTON — West Europeans give the Russians most of the credit for recent progress in arms control, despite American efforts to portray movement toward a new accord on medium-range missiles as a vindication of the Reagan administration's tough negotiating approach, according to a government survey. The survey, prepared by the U.S. Information Agency, examined attitudes in mid-May in Britain, France and West Germany. The results have been presented to President Ronald Reagan, but they have not been made public. The survey suggests that one of Mr. Reagan's most important bids for public support in Western Europe, the so-called zero option, has not been a public relations success. One bit of good news for the United States is that the West European public does not generally believe that an agreement that eliminates medium-range missiles would reduce the American commitment to defend Europe. The survey also made the following points: It said that by an "overwhelming margin," the Soviet leader, Mikhail S. Gorbachev, received most of the credit for arms-control progress. In Britain, 63 percent thought that Mr. Gorbachev deserved the credit, while 13 percent gave credit to Mr. Reagan. In France, 45 percent had doubts about Soviet compliance. In Britain, 49 percent indicated that they were not confident the United States would observe such a treaty, while 46 percent had doubts about the Soviet Union. In France, 38 percent doubted that the United States would observe the treaty, and 54 percent were unsure of the Soviet Union. In West Germany, 53 percent were not confident the United States would observe the terms, while 49 percent had doubts about Soviet compliance.

## AMERICAN TOPICS

### Truth in Scheduling Urged for Airlines

A call for "truth in scheduling" by airlines to help ease the current epidemic of delayed flights and to reduce congestion and the danger of collisions comes from Elizabeth E. Bailey and David M. Kistner, both former officials of the defunct Civil Aeronautics Board, in a New York Times article.

Senator Nancy Landon Kassebaum, Republican of Kansas, has introduced legislation that would require airlines to provide accurate flight schedules. Airlines would be required to publish real flight times, based on actual performance. The article says that "carriers would face fines if they continued the deceptive practice of listing optimistic rather than actual arrival times" in timetables and computer reservation systems. This would encourage people to shift their flights away from peak periods, which airlines "now address by charging higher prices for peak flights." The article says this would be more effective than such other legislative proposals as requiring airlines to publish the percentage of their on-time flights. "This information is too general to help consumers. They want specific information" about specific flights. "It would not cost the airlines any more money to provide correct information. They already generate accurate delay tables for internal use." The same information, privately compiled, can be obtained for \$3,000 a year, and "Congress should make this information freely available to all consumers."

### Short Takes

Manhattan's Yiddish-language Forward is 90 years old this year. Circulation, which reached 238,000 in 1917, is down to about 20,000. It changed from a daily to a weekly five years ago; the editorial staff, once 70, is now three, and the paper has a loss of \$400,000 a year, which is met by



GLACIER WATER, PLEASE, AND HOLD THE ICE — Mark Wilson of Anchorage, Alaska, pouring a sample of the melted glacier ice that he is marketing. He says it is selling well in Japan, where he expects 300 tons to have been sold by the end of June.

the profits of its sister radio station, WEVD-FM. In short, the Forward is the victim of its own success in getting immigrants out of the ghettos and into the middle class. The readership is aging, but the paper has never made a demographic study. As Simon Weber, 76, the editor, says, "If we found out, can we do something about it?" And will the paper make it to 100? Mr. Weber quotes a former Israeli prime minister, David Ben-Gurion: "Anybody who doesn't believe in miracles isn't a realist."

Air force flight crews are to have leather flight jackets again as part of the drive to keep experienced fliers in the service. The dashing fleece-lined jackets, which cost more than \$100 apiece, were dropped in favor of nylon after the air force became independent of the army in 1947. The navy kept them. "The flight-jacket initiative was suggested by field commanders as a means of enhancing esprit," said Lieutenant General Thomas Hickey, deputy chief of personnel.

### Notes About People

John T. Agresto, deputy chairman of the National Endowment for the Humanities, is withdrawing his candidacy to become archivist of the United States. President Ronald Reagan nominated him more than a year ago. Some archivists and historians said Mr. Agresto would have politicized the post, an assertion he rebutted. The archivist has the authority to determine which presidential papers and other major government documents are made public. "It had dragged on for a year and a half," he told The New York Times, and had become "a partisan political battle."

Senator Joseph R. Biden Jr., who is expected to declare formally his candidacy for the Democratic nomination this week, was asked about his reputation as a hothead. "I think there are certain things that warrant being angry," said the Democratic senator from Delaware, who distinguished between being angry and losing one's temper.

As to the reputation for having a quick temper, "I don't know that I will ever overcome that, any more than other candidates will overcome their reputation for dullness."

### Parental Paranoia And Private Schools

A New York Times reader, Neva Sharon, recounts how she was trying to enroll her child at a well-known private school. The admissions director asked her over the telephone for particulars. "I gave her our surname," she recounts, and, after giving her husband's first name as André, was asked "Does he have an accent?" Raised in a French-speaking community in Egypt, he does indeed. Mrs. Sharon recounted, but, bristling at the question, she replied, "Pardon me?" "Your husband," came the reply. "Does he have an accent on the 'c'?" —ARTHUR HIGBEE

# Pope Appeals To Reagan For End to Arms Race

By David Hoffman  
Washington Post Service

ROME — Pope John Paul II has issued a renewed appeal to President Ronald Reagan to end the arms race and cautioned against those individuals and nations that have rejected or "given mere lip service" to moral and spiritual values.

The pontiff told Mr. Reagan that moral and spiritual values must be "truly integrated into daily life."

The presidential spokesman, Martin Fitzwater, quoted Mr. Reagan as reporting that he and the pope devoted most of their 55-minute private meeting Saturday to U.S.-Soviet relations and the Soviet leader, Mikhail S. Gorbachev.

Mr. Fitzwater said that Mr. Reagan gave the pope "a status report" on the Geneva arms control negotiations and "said he was optimistic about an arms control agreement."

But on a day in which the two leaders discussed the arms race there was a poignant symbol of the object their conversation: one member of the White House party greeting the pope was Major Ron Thomas, the president's military aide who carried the nuclear "football" containing codes the president would need in the event of a nuclear attack.

Speaking after his meeting with Mr. Reagan, the pope urged the president to accept policies of "international cooperation" and to look at "enemies" in a new perspective, as brothers and sisters in the human family.

But Mr. Reagan used his remarks at the Vatican to criticize one of his most frequent adversaries, the Soviet Union, and other governments that have repressed the freedom of worship.

Mr. Reagan said the "power of the spiritual force" had been demonstrated in Poland, a reference to the rise of the Solidarity labor movement, "just as we see the powerful stirrings to the East of a belief that will not die, despite generations of oppression."

Nancy Reagan joined the pontiff and the president after the meeting for a discussion of her anti-drug campaign.



President Ronald Reagan speaking at his meeting with Pope John Paul II. Vatican officials are at rear.

## VENICE: U.S., Moscow Discussed Summit, Baker Says

(Continued from Page 1)

Paris meeting last month of financial ministers at the Organization of Economic Cooperation and Development, the West Germans have backed away from language aimed at reducing "excessive" farm supports.

Hints about relaxing the sanctions on Japanese products were made in another television interview with Treasury Secretary James A. Baker 3d, as well as the interviews with Howard Baker and Mr. Carlucci.

The three officials said that the data on semiconductor dumping did not justify the complete lifting of sanctions.

But James Baker said on ABC that there had been "marked improvement" in the Japanese performance in one area, D-RAM chips, the mass-produced basic memory chip.

On CBS, Howard Baker said the president "has already indicated" he would like to lift the sanctions "as soon as the data justifies it." He added: "It's possible that an announcement on semiconductors will come out. I would not be surprised. But I expect the issue will not be finally determined at this conference."

The "marked improvement" referred to by James Baker reflected what he described as a gain from 60 percent to 80 percent in the U.S. market share for the D-RAM chips.

## GULF: Small Soviet Fleet

(Continued from Page 1)

Soviet territory. This is considered a bargaining point, not a real obstacle.

Both sides are now working on proposals for verifying destruction of weapons to be removed from Europe and have agreed to technical talks in the near future.

There are problems about where and how near to the point of destruction each side's observers would be allowed, because when the warheads are open they can reveal engineering secrets.

Mr. Vorontsov said the United States was also biding out against factory inspections, having agreed to inspection in principle but insisting that monitors should stay outside factory gates because going inside could violate commercial rights of secrecy. Moscow wants both sides to have the right to go inside.

The details of both destruction of missiles and verification are a new exercise, he pointed out, an historic precedent that could facilitate later agreements on reduction of strategic missiles and chemical weapons. He said both sides were aware of this and were studying the details involved and then would discuss the technical problems together.

One serious issue is the destruction of solid fuel missiles, which are very dangerous to dismantle. There are proposals to put dummy warheads on them and shoot them into the ocean, or to send them into space as launchers of commercial satellites.

On Afghanistan, Mr. Vorontsov said the Soviet Union believed a solution was possible by establishing a patchwork coalition, leaving chiefs in full control of the territory they now command.

King Mohammad Zahir Shah, deposed in 1973 and now in exile in Italy, could return as a leader bringing peace, he said, but he could not again become the ruler.

The attitude of Mr. Vorontsov seemed to confirm U.S. officials view that the Soviet Union was not yet prepared to withdraw from Afghanistan without being assured of leaving behind a viable central government that would be friendly to the Soviet Union, even if it had only limited power in the rest of the country.

He answered questions about the U.S. space defense program in a conciliatory tone, saying the Russians had proposed drawing up a list of allowable experiments. The Russians would then say which ones they considered compatible with the anti-ballistic missile treaty and which ones they considered objectionable.

When he offered this interim solution to unblock further negotiations on reduction of strategic missiles to the chief U.S. negotiator in Geneva, Max M. Kampelman, Mr. Vorontsov said the American delegate replied by suggesting that the Russians wanted to control which tests Washington could make.

## SUMMIT: Reagan Faces Pressure

(Continued from Page 1)

less than 24 hours at the three-day summit meeting here, will be meeting with Mr. Reagan for the first time since she held extended conversations with Mr. Gorbachev in Moscow at the end of March.

She returns to London on Tuesday to resume campaigning for Britain's parliamentary elections, which will be held Thursday.

Having agreed to put aside their reservations about the "double zero" option proposals for eliminating U.S. and Soviet land-based nuclear missiles in Europe with a range of more than 300 miles (about 500 kilometers), Mr. Kohl, Mr. Mitterrand and Mrs. Thatcher will want to hear from Mr. Reagan about U.S. plans for dealing with the remaining Soviet numerical superiority in conventional forces in Europe.

Prime Minister Yasuhiro Nakasone of Japan also has a strong direct interest in the medium-range accord, which leaves Moscow with the right to station 100 such warheads in Asia while eliminating them in Europe.

The Europeans and Mr. Nakasone are also certain to try to use the meeting to try to cool the increasingly belligerent exchanges between Iran and the United States over the Gulf.

Here again, the swiftness with which Mr. Reagan has replaced one policy with its opposite has raised questions in the minds of policy makers abroad about the quality and character of the analysis on which the president is making foreign policy decisions.

After attempting to influence moderates in Tehran with arms shipments and then defending that decision as recently as March by saying that Iran had stopped terrorist actions, Mr. Reagan is now

regularly denouncing Iran in the kind of terms that he used about Libya before an American air strike was staged against that North Africa country in April 1986.

An administration campaign to call attention to threatening Iranian statements and actions has increased concern in European capitals that Washington might welcome a chance to shift attention away from Mr. Reagan's domestic troubles with an air strike against targets in southern Iran.

France has quietly begun to tell its citizens to leave Iran unless their presence there is absolutely essential. The warnings are said to have been related to a roundup French police conducted last week of suspected members of Iranian-supported terrorist groups in France.

But sources say that concern over mob reaction against Westerners if American raids were staged against Iran was also taken into account in the decision to pass quiet advisories to French businesses working in Iran.

Both France and Britain come to the summit meeting prepared not to take up U.S. requests to increase their military presence in the Gulf, according to diplomatic sources.

Both nations turned down requests from Kuwait to get more directly involved in protecting civilian shipping in the Gulf while the Reagan administration ultimately agreed to do so.

France has already rebuffed Washington on this request, while Mrs. Thatcher has only said that she would consider it. Any renewed effort by Mr. Reagan to get greater French and British involvement would succeed only if he was able to convey a better sense of where such actions were likely to lead, allied diplomats say.

## Pontiff Inaugurates Year Dedicated to Virgin Mary

Reuters

VATICAN CITY — Thousands of Roman citizens, pilgrims and tourists packed into Saint Peter's Square at midnight on Saturday to attend a Mass held by Pope John Paul II to celebrate the start of a year of devotion to the Virgin Mary.

During the ceremony, lit with candles and floodlights, the pontiff welcomed the opening of the Marian year, which is a period of 14 months specially dedicated to the mother of Christ. The Marian year ends Aug. 15, 1988.

The pope has a special devotion for Mary, who he believes saved his life in 1981, when he was seriously wounded by a Turkish gunman. The shooting took place on the anniversary of the day she is said to have first appeared to three shepherd children in Fatima, Portugal.

The pope officially inaugurated the Marian year Saturday night with a televised recital of the rosary from Saint Mary Major basilica in Rome, the oldest church dedicated to the Virgin.

As of prayer to Mary, Catholics linked him to 16 Marian shrines throughout the world, including three shrines where Mary is said to have appeared: Fatima, Lourdes in France and Guadalupe in Mexico. The organizers of the broadcast, a private American television company, said 18 satellites beamed the ceremony to 38 countries on four continents, allowing 1.5 billion people to see and hear the pope.

## POPE: Possible Opening to Moscow

(Continued from Page 1)

Slivinski, who is a Catholic writer. All of these activities could irritate and embarrass Communist leaders, though the Polish prime minister, Cardinal Jozef Glemp, recently hinted that they may occur separately.

For the Polish church, the two moves could have the effect of stabilizing and consolidating the church's role in Poland and lead to the return of such church institutions as the Caritas charity network, which was seized by the state during the Stalinist era.

However, some Polish bishops believe the moves, particularly the establishment of relations with the Vatican, could increase the risk of state interference in church affairs. "Relations with a Vatican led by a Polish pope sound great," said a Western diplomat. "But no one is sure if in the long run the state might try to use the Vatican to go over their heads here."

The chief elements of the new stage of relations are the prospective establishment of full diplomatic relations between Warsaw and

Vatican and the enshrinement of the Polish church's privileges and powers in law. The two steps have long been linked in negotiations, though the Polish prime minister, Cardinal Jozef Glemp, recently hinted that they may occur separately.

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# Savimbi Hails AIDS: Progress in Treating Patients

By John D. Battersby  
New York Times Service

JOHANNESBURG — Jonas Savimbi, the Angolan rebel leader who receives aid from South Africa and the United States, has made a surprise appearance at a meeting of businessmen here with a message of support for President Pieter W. Botha and a rebuke for South African black leaders who refused to negotiate with Mr. Botha.

Mr. Savimbi, who has been fighting an 11-year-old guerrilla war against the Angolan government, praised Mr. Botha for initiating "changes" in the country's apartheid laws, which entrench white domination of the black majority.

"President Botha has started the changes," he said Friday night. "I'm criticizing black leaders in South Africa. Why don't they talk? Someone who is running away from talking has something to hide."

"President Botha needs support now," Mr. Savimbi said in his outspoken endorsement of Mr. Botha. He was warmly welcomed by Foreign Minister R.F. Botha, who said the future battle in South Africa would have nothing to do with color but would develop along ideological lines.

This was not the first time that Mr. Savimbi, whose National Union for the Total Independence of Angola is based in southern Angola, has appeared in South Africa, but it was his most public visit so far.

The rebel leader's appeal coincided with a call by Archbishop Desmond M. Tutu, who urged Mr. Botha not to reimpose a 12-month-old nationwide state of emergency decree.

The Anglican archbishop called on his clergy throughout South Africa to toll their church bells at noon on Thursday, the day before the first anniversary of the state of emergency. He asked all Anglicans to wear black armbands "as an indication of our grief and distress at the effects of the state of emergency."

Another is IL-2, a natural hormone that stimulates production of white blood cells, including those killed by the AIDS virus. Dr. Lane said that IL-2 increases the number of white blood cells in the AIDS patient but IL-2 alone "is of minimal, if any, clinical benefit." But if combined with other drugs such as AZT or interferon, IL-2 could become a powerful treatment.

In the late stages of the disease, AIDS patients "are like time bombs," Dr. Fauci said. They de-

# Botha's Steps To Change Apartheid

(Continued from Page 1)

Allergy and Infectious Diseases. Beginning treatment early, before the virus has had the time to damage the body and when the body is better able to withstand the side effects of the drugs, seems to be receiving more emphasis, researchers reported.

A large study is being organized to use AZT to treat people infected with the AIDS virus but who do not have symptoms. The researchers want to determine whether AZT treatment can halt the progression of the virus and prevent symptoms from developing.

In another report, Dr. Fauci's group at the National Institutes of Health has been transplanting bone marrow from healthy twins into their infected brothers who have AIDS to see if this strategy can rebuild the immune system.

Ten AIDS patients have been treated for 12 weeks with AZT and then given bone marrow transplants from their identical twins. Some continue to receive AZT, while others do not.

One patient treated with a bone marrow transplant more than a year and a half ago, and not part of the 10-patient study now under way, is still alive after several transplants. But his course has been rocky, Dr. Fauci said.

No results are yet available on the 10 patients, and it is not yet clear whether bone marrow transplants, with or without AZT, will become a standard treatment.

A number of other drugs are also being tested to determine whether they can boost the immune system, though they probably cannot rebuild it.

One, called GM-CSF, a hormone that stimulates the production of certain white blood cells, does not appear to have an immediate impact on AIDS, but it may prove useful in preventing some of the opportunistic infections associated with the disease.

Another is IL-2, a natural hormone that stimulates production of white blood cells, including those killed by the AIDS virus. Dr. Lane said that IL-2 increases the number of white blood cells in the AIDS patient but IL-2 alone "is of minimal, if any, clinical benefit." But if combined with other drugs such as AZT or interferon, IL-2 could become a powerful treatment.

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# 6 Israelis Arrested On West Bank

New York Times Service

JERUSALEM — Six Israelis from the West Bank settlement of Kiryat Arba were arrested early Sunday after dozens of settlers converged on the entrance to Dabehsheh refugee camp late Saturday night, fired shots in the air and vandalized property to avenge recent anti-Israeli violence, police said.

The catalyst for the confrontation Saturday night at the camp, near Bethlehem, apparently was an incident Friday in which a Kiryat Arba woman was injured by rocks hurled at the bus she was riding, a Kiryat Arba resident said.

In a separate development, the army announced that the soldier responsible for the fatal shooting of a 35-year-old Nablus man during a demonstration on May 26 had "not acted in accordance with rules for opening fire" and would stand trial. Regulations stipulate that shots must be fired in the air or at the legs of a fleeing suspect unless the soldier's life is in danger.

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**Israeli Name Career Diplomat As Envoy to U.S.**

Reuters

JERUSALEM — Israel's cabinet on Sunday appointed a veteran career diplomat, Moshe Arad, to be ambassador to the United States, according to a spokesman for Prime Minister Yitzhak Shamir.

The decision comes after months of political wrangling over the post. U.S. officials must approve the appointment before Mr. Arad, 53, can assume the post, the spokesman said after the weekly cabinet meeting.

Israel has been without an ambassador in the United States since May 31, when Meir Rosenzweig's term expired.

Mr. Shamir, leader of the Likud bloc, and Foreign Minister Shimon Peres, of the Labor Party, had been unable to agree on a candidate since November.

Mr. Arad's last post was as ambassador to Mexico.

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The Summit Charade

The leaders of the industrial world trooped to Venice over the weekend for the announced purpose of holding an economic conference. They face a crowded agenda but need to make room for one more topic: Restore the idea of serious annual exchanges on economic policy, or end the charade.

does Japan appear to be serious about stimulating its economy. The West German economy also needs pumping up; yet despite mounting evidence of slack, Bonn insists that no more juice is necessary, and has done next to nothing.

The responsible economic and financial officials of all three countries meet frequently and have made these points, endlessly. Their bosses will be no more flexible, or persuasive. In two days together they will not even spend much time on these issues.

When Valéry Giscard d'Estaing was president of France in 1975, he had a good idea. He invited President Gerald Ford and the leaders of Japan, West Germany, Britain and Italy to a palace in Rambouillet for a weekend of unstructured talk about economic issues.

Barring a well-concealed surprise, the conference in Venice will produce little more than solemn reaffirmation of old, empty pledges from all seven participants: the United States, Japan, West Germany, France, Britain, Italy and Canada.

Rules of Engagement

Inside its councils and outside, the Reagan administration is experiencing some turbulence in shaping policy for the Iraq-Iran war. Good. The administration had not adequately prepared the rationale or the operating guidelines for its new plan to "reflag" and escort Kuwaiti tankers in the Gulf.

have to negotiate an end to the war and to keep Moscow from becoming Gulf protector by American default. Nor does Senator Pell take account of the UN record of frustration in the Gulf. Mr. Reagan, however, has centered his policy pleading on the implausible prospect that a cutoff of Gulf oil could come soon.

Meanwhile, officials ponder the rules of engagement that should guide American ships protecting the Kuwaiti tankers. The shadow of Beirut, where American military men were given a mission that exposed them to heavy risk and orders that restrained their self-defense, necessarily overshadows the proceedings.

We think he is wrong and that there is an answer to his argument in the requirement to brace the moderate Arabs, to strengthen whatever inclination revolutionary Iran may

Gandhi Fans the Flames

India calls it "humanitarian aid" to beleaguered Tamils threatened with massacre. Sri Lanka vehemently denies atrocity charges and denounces India's air drop of supplies as "a naked violation of our independence."

Dismaying, India has plunged into intervention before independent monitors established what happened in Sri Lanka's southwest against Tamil insurgents on the northern Jaffna Peninsula. There is more than a suspicion that Mr. Gandhi wanted the headlines, not the evidence, in first ordering a floulla to carry aid to rebels, then mounting an airlift when Sri Lanka dared to block the relief boats.

Chinese and Indian troops are reportedly reviving a boundary dispute that in 1962 led to a war. Mr. Gandhi is staging non-stop military maneuvers on the India-Pakistan border, in anger over Islamabad's nuclear ambitions and its U.S.-aided arms buildup. And within India, the Punjab is again torn by violence between Sikhs and Hindus, while Hindus and Muslims step up violence against each other in the northern state of Uttar Pradesh.

Standing tall for two million Hindu Tamils against Sri Lanka's Buddhist Sinhalese helps Mr. Gandhi at home — especially heading into Thursday's critical election in the northern state of Haryana. The ruling Congress Party has lost a string of local elections, and badly needs a victory.

Such internal violence is an old Indian problem: the frontier maneuvers are most probably shadow-boxing; and Mr. Gandhi's reason to big-stick diplomacy in Sri Lanka recalls India's belligerence with smaller neighbors. Mr. Gandhi begins to look like his tony and authoritarian mother, but without her cunning.

Mr. Gandhi can truthfully say that he tried to mediate, and that twice Sri Lanka's president, Junius Jayawardene, withdrew concessions under pressure from hard-liners. But this ignores atrocities committed by Tamil terrorists, New Delhi's inability to clamp down on their training camps and to prevent the arms flow across a narrow strait. And in December, Mr. Jayawardene came up with an autonomy compromise. Mr. Gandhi liked it, but Tamil militants rejected it furiously.

Other Comment

Talking About AIDS in Venice

There are pressing reasons for talking about AIDS at the Venice summit meeting. The World Health Organization needs \$37 million in voluntary contributions this year to launch its Special Program on AIDS. The work of WHO will be facilitated by a summit declaration acknowledging the central role of the organization.

the Bavarian government on May 19 imposed a mandatory AIDS testing program for all persons seeking public office, as well as for non-European immigrants seeking residence permits. In France, Jean-Marie Le Pen, the leader of the extremist right-wing National Front, has made the isolation of people with AIDS into asylums a major campaign that could frustrate the French government's own constructive program.

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OPINION

Of the Press, Politics and Private Lives

By Jim Hoagland

PARIS — Two photographs published in Europe last week have altered the perception here of the Gary Hart case. The tawdriness and stupidity of the caper that felled Mr. Hart are finally conveyed in the images of him balancing Donna Rice on his knee and mugging for the camera aboard the good ship Monkey Business.

Until now, European politicians, journalists and others have tended to see Mr. Hart as the victim of an overly powerful and inquisitive press. They have professed shock not over his Saturday night and Sunday morning with Ms. Rice, but over America's apparent moral hypocrisy in singling out one politician for punishment for a human, forgivable foible.

"If we used the same standards, we would not have been able to have three of our past four presidents, who were good presidents," an indignant Frenchman said shortly after Mr. Hart withdrew. Endorsing the curtailment of discretion that European newspapers draw around the sex lives of the politically prominent, he added: "And we all know that at least two West German chancellors would have flunked such a morality code. Can we be blamed for wondering if America is a serious country?"

"It is just not the same culture," Francois Leloir, France's minister of culture, told a questioner. If French media emulated The Miami Herald's approach to political reporting, "no French politician could withstand it." (It is necessary to except Britain from this description of European reactions, since Fleet Street has long since made kissing and telling a lucrative public pastime. The ability of my fellow University of South Carolina Phi Beta Kappa, Ms. Rice, to cash in on her sudden notoriety suggests that we Americans are simply catching up with our British cousins in such prurient behavior, exercised in our case through Playboy, Penthouse or Miami Vice rather than through the tabloids in London.)

What are the cultural differences that divide Europe and the United States on the lateplay of public morality, sex and the independence of the press when it comes to examining the private lives of politicians? It is partly a matter of European cynicism, asserts Christine Ockrent, France's most prominent television journalist. "Nobody here believes that lying is a sin, or that it is even a mistake. And besides, the French think they are great lovers, so anything to do with sex is a plus, and not something to be exposed as scandal."

It is also a matter of politics. Europe's newspapers, magazines and radio and television networks remain to a surprising extent supported by subsidies from political parties or by governments through tax breaks or direct funding. They are party to the tacit understandings among the political leaders themselves that private lives are out of bounds in political warfare. Themselves part of "the political class" in a way their American counterparts have not traditionally been, journalists follow the convention from necessity and as a matter of personal taste. They sense that if they were to ask a politician about his record on adultery, their own private lives and that of their editors would quickly become fair game for public inquiry and disclosure. They have found it difficult to understand how Mr. Hart could appear to be so helpless in a direct confrontation with journalists.

But the Monkey Business Photo Archives have shifted the focus of reaction here, swinging it away from an automatic assumption that the U.S. media conducted a politically inspired lynching for the benefit of a puritanical American public, and onto Mr. Hart's poor judgment. Posting for sappy photos at a time when he was insisting that he was so happily married sharply diminishes Mr. Hart's standing as victim in worldly wise European eyes.

The growing move in Europe and in France in particular to encourage private ownership of television and radio broadcasting networks is clearly causing concern among politicians about the future. For them, the outcome of the Hart case outweighs the fine points about who should have been shocked by what. For former Prime Minister Raymond Barre the question is nothing less than whether "the Fourth Estate has not become so powerful that it is hindering the normal working of the other three."

This view of the media is largely a myth imported from America, the French writer Jean-Francois Revel responds, "but the politicians believe it, the public also, and the journalists in countries to contemplate the advantages of acting for peace before there is a slacking in the extraordinary American defiance that Israel still enjoys." The Washington Post.



The Gulf: Why America Has No Choice but to Stay

By Daniel Patrick Moynihan

The writer, Democrat of New York, is a member of the Senate Foreign Relations Committee.

WASHINGTON — When President Reagan addressed the American Newspaper Publishers Association on Ellis Island last month, he said he was invoking Lenin by saying, "The road to America leads through Mexico."

It was not Lenin the president had paraphrased but his associate Leon Trotsky, who in 1919 said, "The road to Paris and London lies via the towns of Afghanistan, the Punjab and Bengal." Trotsky proposed the establishment of a Revolutionary Academy in Turkestan and the raising of a great force of cavalry to invade India.

The point is that the Soviet Union, geographically, is overwhelmingly Asian and, having long since reached the Pacific, has for a century been pushing south toward the Indian Ocean and the Arabian Sea. From this perspective, the significance of the secret sale of arms to Iran begins to sink in. This fait accompli, doomed conspiracy has reached far beyond mere disgrace. It has threatened the balance of world power.

In short, Soviet warships, at Arab invitation, are now on station in the Gulf. If they stay, the West risks losing control of two-thirds of the world's oil reserves. The great geopolitical prize of the 20th century is now in their grasp, Americans did that.

More precisely, the Kuwaitis did. They turned to the Russians for protection of tankers threatened by the Iraq-Iran hostilities. Kuwaiti officials journeyed to Moscow. A secret agreement was reached far more extensive than at first revealed — far more ominous than yet realized.

On May 29, in a hearing of the Senate Foreign Relations Committee, I asked Richard Murphy,

the assistant secretary of state for Near Eastern and South Asian affairs, what could have possessed the Kuwaitis — the natural prey of the Soviet Union — to seek its protection. He answered: "Well, the moment that decision was not coincidental. It was November 1986."

I asked, "It was not coincidental that the Kuwaitis asked the Soviets in as it came to be known throughout the world that we had been shipping arms to Iran?" He replied: "It's got to have been a factor." Whereupon Congress may have received the first truthful response from an administration official since the conspiracy was abraded. And a true measure of the calamity, Sunni Arabs, having learned that the United States was arming Shiite Persians, decided to reward this duplicity in kind.

It was hard enough getting the Russians out of Iran after World War II, and since 1949 the United States had naval forces stationed in the Gulf to keep them out. That period is now past. Further, to recall Trotsky, the Russians have seized most of the villages and all the cities of Afghanistan. (The city of Herat, within fighter-bomber range of the Gulf, figures prominently in the correspondence of Queen Victoria, when the Russians were probing Baluchistan a century ago.)

With the Punjab in some disarray and West Bengal under a Communist government, the Russians have now taken up station in the Gulf

athwart the shipping lanes on which the economies of Japan and Western Europe depend utterly.

Soviet protection has its price, however. The Kuwaitis, who head the Islamic Conference Organization, have begun to pressure Pakistan to ease its insistence that Moscow withdraw its armored cavalry and other forces from the Khyber Pass and parts west. Is yet another U.S. policy at risk? Is the whole region at risk?

Well, we Americans asked for it. No, wait. The American people did not. A handful of conspirators did. It is still possible to make this point, even to nations in which conspiracy is not all that uncommon. All the more reason that Congress should be seen to support the policy of every American president back to Harry S. Truman. There is no choice. The Gulf is vital to American interests. It is not vital to Soviet interests. Americans cannot accept their intrusion.

The more also the United States should use this moment of danger not merely to assess damage but to ask questions of character. In that most beautiful of his poems, "By Blue Ontario's Shore," Walt Whitman saw clearly the cycles of history. "Any period one nation must lead. One land must be the promise and reliance of the future." This came to us. The American people have no reason to let it slip away into the hands of a despicable totalitarianism through simple unwillingness to face up to their own behavior.

"Who are you," Whitman continued, "that wanted only to be told what you knew before? Who indeed? We shall be finding out." The New York Times.

To Revive U.S. Industry Means Restoring Lost Faith

By Akio Morita

THE TRADE imbalance between Japan and the United States, which now amounts to \$60 billion, is clearly unacceptable. Both countries must share the blame. Yet neither has really been honest with itself.

Japan's efforts to address the problem have been "too little, too late." The Japanese approach has been to address each specific American complaint as it comes up rather than to look at the issues in a larger context and then work to solve the underlying problem. The Americans, meanwhile, tend to blame everyone but themselves for the fact that their currency has declined in value and their industry has lost its competitive edge.

The United States is locked into a "big nation" self-image, and this is out of date. The Japanese persist in thinking of themselves as a poor, dependent nation, even though Japan is the world's largest creditor nation and a world leader in many technical areas.

Americans used to be able to buy whatever they wanted with dollars. They never had to earn another country's currency to pay for imports. Now the huge federal deficit is being financed by funds from abroad in forms of capital flow and loans, giving Americans the false impression they can keep living as they always have.

Japan's experience has been different. Having always had to buy most of its raw materials and much of its food from abroad, Japan had to export to earn dollars because no trading partner would accept the yen. We had to export or die.

Now some people in the United States — people with an eye to political office — are saying that the trade imbalance is Japan's fault and are proposing retaliatory measures. The fact that America also maintains quotas on steel, textiles and machine tools is seldom mentioned. In any event, retaliatory measures are not the solution to our problems. Sanctions and self-righteousness rarely result in sound policy.

My company's business is to supply electronic products to the world market. Our policy is to make products where the market is. In 1970, we decided to build a factory to produce television sets in San Diego. At the time, it took 360 yen to buy a dollar, so operating costs in the United States were much higher than in Ja-

pan. Nevertheless, we were confident that our judgment was a correct one in the long run. We invested, transferred our technology and trained our people. Now our plant in San Diego is exporting TV sets to Japan.

Some people think this is curious. An American friend recently said to me, "Akio, I bought an American TV rather than a Japanese TV because we have a terrible trade deficit. I found out later that the American set was made in Taiwan, and the Sony set that I decided I wouldn't buy was made in the United States."

As I had to tell my American friend, what we were seeing was the difference between a company with faith to invest in itself and a company that had no faith in itself at all.

I am afraid that American industry has lost faith in itself, and that the trade imbalance would not be corrected until that faith is regained. The Japanese automobile industry, in particular, is investing heavily in new plants in the United States, creating thousands of new jobs. The American automobile industry, on the other hand, is investing in the Japanese automobile industry not to obtain a foothold in the Japanese market but to buy engines and even complete

automobiles to be sold in the U.S. market under their own brand name. I helped General Motors acquire one-third interest in Isuzu because I thought this would help sell GM cars in Japan. But instead they started to import components and completed cars from Isuzu. Lee Iacocca, the head of Chrysler, criticized the trade imbalance while importing aggressively from Japan. It is ironic that those engines and automobiles are then counted as Japanese exports to the United States, tipping the trade balance further in Japan's favor.

I now see encouraging signs that Americans realize that the trade imbalance cannot be solved by erecting protectionist walls that will serve only to restrict trade and threaten worldwide recession. Neither will the trade problem be solved by the manipulation of the yen-dollar exchange rate, because if American industry does not generate products to sell, price does not matter. The only solution is for American industry to regain its competitive edge.

Unfortunately, America's brightest managerial talent is engaged in takeover moves and empire-building. The best students do not study engineering but become MBAs or lawyers

20 Years After, Uneasiness in Israel

By Stephen S. Rosenfeld

WASHINGTON — Everything after Israel's victory in June 1967 seemed so right, so natural. The country had been saved, Jerusalem reunited. Surely an Arab would pick up the phone, in Moshe Dayan's phrase, and call Israel for peace. In any event, Israel's security looked permanently ensured by the technological superiority of its culture over the culture of the Arabs. In those days one still thought of them as "the Arabs" — collectively, ethnically, dismissively.

The years 1967 to 1969 were painful ones in the United States. The promise of the civil rights revolution was turning to ashes in the ghettos. The last great crusade of U.S. foreign policy was coming to grief in the rice paddies of Indochina and in the streets of America. You did not have to be Jewish to view Israel not only as a military model but as a political society that had found its way.

In time, of course, reality erased this sweet and false picture, and produced a new American-Israeli condition. The quality of state relations, the fervor of official rhetoric, the level of aid have never been higher. But underneath is a layer of unease, a sense of difficulty brewing.

From the detachment shown in 1967 and the "evenhandedness" suggested afterward, the United States is now firmly and all but formally on Israel's side of the Arab-Israeli — better, the Palestinian-Israeli — dispute. But in the process Israel has become deeply dependent on American money, arms, intelligence, technology and good will.

With Israel's becoming a state living on American remittances comes a potential for distortion. U.S. aid goes not only to defend a friendly embattled democracy but to support the still relatively high Israeli standard of living. The numbers are too large,

and Israel's edge over other aid recipients is too visible. America is generous, and the Israeli lobby is powerful, but there have been occasions when Washington held back aid to make a point, and the impulse could return.

The assertion that America and Israel now share strategic purposes is misleading. There is a consensus that U.S. ships should dock in Haifa in peacetime, but on the true strategic questions — projecting military power into the Gulf, confronting the Soviets — there is no consensus. The disintegration of U.S.-Israeli cooperation in the Iran affair once it was revealed proves this. So does the absence of an Israeli factor in the intense American calculations over the Gulf.

The two governments came to an overtone of strategic partnership in the early 1980s, but this could yet shrink into something more modest and more appropriate. The question is whether this will happen as the result of prudent tailoring by the two countries or whether it will happen with a jolt damaging one or both.

The USS Liberty episode of 1967, in which the United States evidently sent a ship to spy on Israel and Israel bombed the ship to keep its freedom of action from being circumscribed, remains an unhappy but precise expression of a basic continuing difference in strategic perspective.

Since 1967, the United States has come by stages to think that a Middle East peace is possible and necessary. Still, over the years Americans have displayed an uncommon deference not simply to imperatives of Israeli security but to the convenience of Israeli domestic politics: sparing Israel the hard choices it eventually will have to make if it is to do its part to

achieve peace. The net result is that the United States does less than that might promote a peace policy that many Americans believe to be sound for America and safe for Israel.

The 20-year record shows immense American understanding for the difficulties of making peace with adversaries such as Israel has. The record also shows that Israel has used its favor in U.S. politics and public opinion to avoid excruciating decisions on territorial and political compromise with compromise-minded Palestinians.

The 20th anniversary of a war is not a bad moment for people in both countries to contemplate the advantages of acting for peace before there is a slacking in the extraordinary American defiance that Israel still enjoys. The Washington Post.

IN OUR PAGES, 75 AND 50 YEARS AGO

1912: Revolt in Cuba

WASHINGTON — It was officially announced at the War Department [on June 7] that preparations have been completed for the immediate despatch of 5,000 troops to Cuba to put down the negro insurrection. The purpose of the expedition, it is stated, is purely military and to restore order, and there is no intention of obtaining political control of the island by annexation or otherwise.

NEW YORK — The gravity of the situation in Cuba is emphasized in a telegram from Havana [on June 7], by the issue to the people by President Gomez directing them to arm in face of the national peril. Operations of the military in the province of Oriente have completely halted due to the impossibility of infantry, artillery and cavalry advancing simultaneously into the mountainous region.

1937: Jean Harlow Dies

LOS ANGELES — Jean Harlow, twenty-six, glamorous platinum blonde of the films, one of the world's favorite Hollywood stars, died [on June 7], in the Good Samaritan Hospital at Los Angeles, where she had been taken hours before unconscious, suffering from acute uraemic poisoning. Miss Harlow became ill May 26. Writing a thumbnail biography of her a year ago, Jim Tully said, "She typifies on the screen the young woman who will never grow up, whose capacity for pleasure is so vast there is no room for thought. As brittle as glass on the screen and as easily seen through, she is neither evil nor unkind — merely uncomprehending. Her work in "Dinner at Eight" and "The Red-Headed Woman" established her as an actress of ability. She was a sensation in "Hell's Angels."

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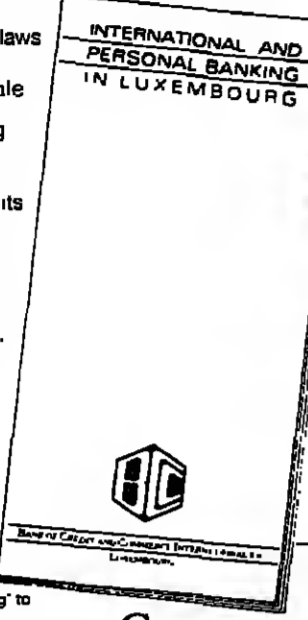


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## PROFILE

# Tuning In To Japan's Subtle Shifts

By John Meehan

**E**XPENSIVE, SPECULATIVE, unpredictable. These are terms foreign money managers have been using with greater frequency in recent months to describe Japanese stocks as they continue a dizzying price climb. But for Laura Luckyn-Malone, the notion that the success of the Tokyo Stock Exchange is merely a function of a casino mentality could not be further from the truth.

"I'm not saying it doesn't exist. But you don't have to invest that way to succeed," argues the 34-year-old portfolio manager of the Japan Fund. Instead, she views the market as the best indicator available to understand the Japanese economy. "And the economy is changing," says Ms. Malone. "The challenge is to find out when and where the changes are taking place."

Indeed, in a prolonged rally that some investors believe has more than a fair share of madness, Ms. Malone sees a method. In the mid-1970s, she points out, manufacturing was seen as Japan's future. Nippon Steel was one of the market's best performers. After the oil shocks dulled the outlook, assembly-line industries and technology shares, such as Hitachi, took off. Now, in the midst of a lengthy trade dispute, the market has turned to the financial and domestic service sectors.

Such change is a permanent fixture, Japanese companies were hardly household names back in 1962, when the Japan Fund, which is managed by Asia Management Corp., a subsidiary of Scudder, Stevens & Clark Ltd., premiered on the New York Stock Exchange. It was the first single-country, closed-end fund to invest in the Tokyo stock market, which was just beginning to respond as Japan began to flex its economic muscle.

The economy has matured much since then and so has the fund. Last month, shareholders voted to convert the fund into a conventional mutual fund after it was trading at around \$18 a share on the market, a 10 percent discount to its asset value.

With close to \$700 million under management, the portfolio's net asset value rose 77 percent last year. The Nikkei index of Japanese stocks gained almost 81 percent in dollar terms during the same period. This year has been trickier, however. Although the market rose 25 percent in dollar terms in the first quarter, the fund was up only 8 percent.

Ms. Malone, a Cambridge graduate who left her



Laura Luckyn-Malone: "Ignore the government at your peril."

native Britain a decade ago and has managed the Japan Fund for the past two-and-a-half years, attributes the discrepancy in part to the decision last February to add Nippon Telephone & Telegraph, which is not available to foreign investors, to the index. Moreover, the unexpectedly fast appreciation of the yen, she notes, left many fund managers overweighted in export sectors.

As for the future, Ms. Malone is confident that the rally in Tokyo will continue. If approved, the recent fiscal package announced by the Nakasone government could add as much as 2 percentage points to Japan's economic growth, she believes.

But the numbers are not the only clue to the market's future, she says.

Right now, she is watching with interest the emergence of a young professional class in Japan, who, like their " yuppie" counterparts in other countries, are making an art out of consumption. This marks a significant departure from traditional Japanese culture, which frowns on material consumption.

Demographics are also important, Ms. Malone says. Japan is an aging society, and the government has taken steps to enhance the funding for research

and development in the pharmaceutical industry. Although rumors of an imminent cure for cancer or AIDS periodically throw the market into a frenzy and ultimate disappointment, she says, this official commitment will continue to benefit pharmaceutical stocks in general and biotechnology stocks in particular.

Not surprisingly, Ms. Malone says she spends a lot of time with bureaucrats on her trips to Japan. "You ignore the government at your peril," she says. "It's not that they have a plan, but they have a vision."

As for fundamentals, Ms. Malone does not ignore the conventional yardsticks, such as earnings, cash flow and quality of management. But when it comes to price/earnings multiples, Ms. Malone thinks value in Japan is very relative.

"If a Japanese broker calls me and tells me about a company selling at 16 times earnings, the first thing I ask is what's wrong with it," she says. "There are a lot of reasons why the market ignores these stocks."

Ms. Malone's current portfolio clearly reflects her belief in a new consumer-oriented Japan.

Her fund's largest single holding is in Tokyo Corp., ostensibly a railroad company. In fact, the

company amounts to a conglomerate with holdings in bus lines, hotels, a share in a domestic air carrier and an extensive real estate portfolio.

"It's a proxy for everything you want Japan to be in the future," she says.

The housing sector is also represented. Ms. Malone especially likes Sekisui Chemical Co., which aside from its chemical business is a leading maker of prefabricated houses and building materials. It also manufactures sewage pipes, a key product. Ms. Malone says, given the fact that many Japanese homes still have no flush toilets.

Dai-kyo Kanko, one of Japan's biggest condominium builders, is another favorite, she says. Moreover, the company has growing interests in the leisure industry, which includes developing an elaborate resort on Australia's Gold Coast.

In the retail sector, Ms. Malone is fond of Marui Co., a Tokyo department store that was the first in Japan to offer credit. It has become a favorite for young professionals because of a popular fashion line it markets to men and women in their 20s.

Among financial stocks, she likes Nomura, Daiwa, Sumitomo Bank and Sanwa Bank. The Industrial Bank of Japan is another favorite. Originally founded to promote industrial development in Japan, the bank came to realize in recent years that it had outlived its usefulness and decided to turn to investment banking. Ms. Malone acknowledges that investors would have had reason to be skeptical of the chances for success.

"Nothing that the bank wanted to do would have been held up if you just scrutinized the numbers," she says, but she was swayed by the government's continued deregulation of Japanese financial support. Since fact that IBJ clearly has government support. Since then, the bank's fee-generated income has climbed. Last year, it acquired J. Henry Schroder's Bank in New York, which in turn bought Aubrey G. Lanston, a primary dealer in U.S. government securities. IBJ's interim profits were up 50 percent, she notes.

As a result, she says, some companies have geared their operation to make money even if the dollar drops to between 120 and 140 yen. Here she likes the household names like TDK Corp., Sony Corp., Canon and NEC.

Ms. Malone also likes some smaller stocks that have been ignored in the latest rally because of liquidity problems often associated with the market's second-tier issues. She likes Chiyoda Shoe Shop Co., a retail shoe outlet that had remarkable results after it opened a chain of toy stores that specializes in electronic toys.

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# Betting on the Dreams Of Japan's Future

Continued from Page 7

tic spending package that many economists believe is a tacit acknowledgment that social, political and economic pressure for change can no longer be held back.

This best explains the market's continued commitment to a broad domestic theme that places special emphasis on the housing, construction, chemical, retailing and real estate sectors.

Whether or not these expectations are realistic, the current crop of concepts has powered the Tokyo market to heights no one would have predicted even a few months ago. The Nikkei index of 225 stocks has risen about 30 percent since the start of the year and is up 85 percent from the beginning of 1986. Volume is running at nearly 15 billion shares daily, more than double the 1986 average.

The view that this market simply could not go any higher, a concern often voiced by foreign investors, has once again been swept aside. The current leg of the Tokyo rally, which began last November, has driven average price/earnings multiples to 75 or so, five times the average in New York and more than triple what they are in London.

Even at that price, there has been no rush out of equities. But the level of anxiety has clearly risen. Everywhere, it seems, there is a sense that the future is a matter of "progress through uncharted waters," as Nomura Securities Co. titled a recent research paper.

The immediate fundamentals are hardly encouraging. Japan's economy is officially forecast to grow by 3.5 percent this year; the consensus in the market is that growth will be limited to 2.5 per-

cent. As for corporate profits, Philips & Drew in London believes earnings will rise 1.2 percent this year, less than half the 5.5 percent a year expansion that companies averaged between 1981 and 1985.

With the Nikkei hovering at 24,000, investors are watching for signs that the index's retreat last year, by 16 percent from mid-August through October, will be repeated.

Confounding the outlook is the chronic problem of excessive liquidity. The "weight of money" theory has often been used to explain the market's dramatic rise. Even in the mid-1970s, when the Nikkei was below 4,000, Tokyo was a place where too much money was chasing too few shares, just as in the case of far less mature markets in Asia, such as Seoul and Taipei.

Now, THE LIQUIDITY argument is central to Tokyo's prospects. For most analysts, it has become the paramount consideration that will likely guide the exchange over the next few months.

Tokyo's capitalization has nearly tripled since the beginning of 1986, to \$2.66 trillion, according to Morgan Stanley Capital International. Although this makes it the world's largest equity market, roughly two-thirds of its stock remains untraded as part of the complex web of cross-holdings at the center of Japan's corporate and financial structure.

But it is the demand side of the equation that has forced up prices most dramatically. While local individuals have long been net sellers, their growing sophistication and their concerns about the mar-

ket's dangers are swelling the assets controlled by investment trusts, as unit trusts are called here.

These are now valued at about 35 trillion yen; some fund managers expect investment trust assets to reach 50 trillion yen by the end of this year.

As the Japanese work force matures, life insurance companies and pension fund plans are following the same growth pattern. Their combined assets have grown by two-thirds over the past four years, to 81 trillion yen; this year, according to Nomura, they will increase an additional 23 percent.

Exchange-rate risks and record low interest rates at home have fueled an increasing percentage of these funds into Japanese equities. These factors, combined with the grim outlook for exports and a sluggish domestic economy, have also given rise to a relatively recent phenomenon: the so-called *Tokkin* funds, independently managed vehicles through which manufacturers invest in financial assets.

The Tokkins scarcely existed five years ago, when exports were still king. Last year, they grew by 130 percent to 20.5 trillion yen; this year, the Tokkins are forecast to reach 37 trillion yen.

All this has made the market highly vulnerable to suggestions that interest rates may rise, that the yen may stabilize or drop in value, or that the economy may pick up. Reflecting the spread of concern about these factors, investment trusts were net sellers in April for the first time in almost a year, and foreign investors staged the second-largest sell-off they have ever recorded.

Both groups, however, were buying again in May. The liquidity

argument, in effect, is proving an irresistible draw, even for some normally skittish *Gaijin* fund managers. Like their Japanese counterparts, many foreign analysts predict a Nikkei average of 26,000 to 27,000 by the end of the year, despite the obvious liabilities.

"We argue that such is the weight of money behind the Japanese market that its present level is not too high," insists Mr. Patterson of Jardine Fleming. "There is something that represents value underneath all of this."

That, in fact, has become increasingly difficult to identify. Investors in Japanese stocks still have to cope with the kind of practices more common in less developed markets. These include a partial disregard for fundamental criteria and extensive insider trading.

The "ramping" of stocks by major brokers is also common. A good example has been Nippon Steel. Despite poor fundamentals, local brokers continued to paint a bright picture for the company because of industrial restructuring. It started the year at 168 yen and peaked at 403 yen on May 11 in heavy trading. "There is no reason at all to buy this stock," says one British analyst.

Not surprisingly, investors are bating a tough time assembling portfolios. Even U.S. and European fund managers who used to be a small but significant force, outperforming both the index and their local competitors, have had trouble adapting to a market of rotating themes.

"It's been difficult for the winners in 1983 to come to terms with what has turned out to be a secular change," says James J.D. Hegarty, planning manager for Yamaichi

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**HARD ASSETS**

# The Diamond Market Regains Its Confidence

The key factors:  
Inflation anxiety,  
tighter supplies  
and better demand.

By Cynthia Catterson

**W**HEN DE BEERS CONSOLIDATED Mines Ltd. increased its diamond prices 14.5 percent last year, dealers worldwide felt a keen sense of relief. The move by De Beers, which controls roughly 90 percent of world sales of rough diamonds, signaled its confidence that the market was finally on the road to recovery.

So far, prices have improved steadily. The recent outbreaks of inflation anxiety, set off by rises in commodities prices, were just the sort of psychological push the market needed. Helping is a tighter supply of diamonds and stronger demand, especially from Japanese and Europeans, whose strengthened currencies give them more clout in the dollar-based diamond market. Some industry observers attribute the increased demand to buoyant stock markets that have lined the pockets of quality-conscious customers between the ages of 35 and 45.

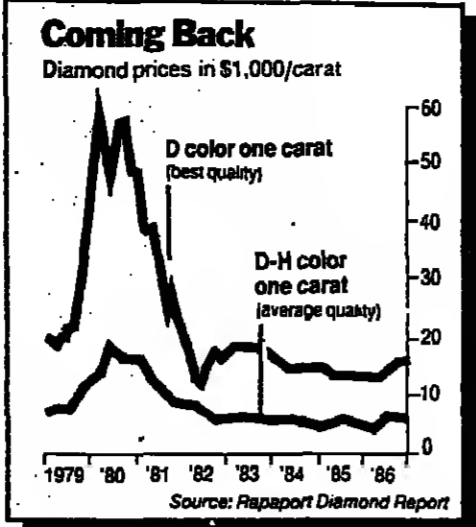
But the enthusiasm is still tempered by painful memories of what the industry darkly refers to as the "Crash of '80." In the second half of that year, expectations that inflation would drop and interest rates would rise initiated a sharp decline in diamond prices, leaving many dealers with huge stockpiles for the next several years.

Prices for the investment-grade "D-flawless" stone, considered a benchmark, plummeted from an average \$55,000 a carat in 1980 to as low as \$10,000 a carat in 1982. The current asking price is about \$16,000 a carat. Until last year's increase, De Beers had held off from raising prices and had tailored supplies of certain sizes of stones until some of the excesses could be absorbed.

The strategy appears to be paying off. According to Andrew Lamont, spokesman for the Central Selling Organization (CSO), the marketing cartel for the diamond industry, total worldwide sales of rough diamonds rose by 40 percent in 1986 to \$2.56 billion, about twice the best sales year since 1980, when volume totaled \$2.72 billion.

Mike Gordon, a mining analyst at James Capel & Co. in London, estimates that sales of uncut diamonds will grow beyond \$3 billion in 1987. Retail diamond jewelry sales, the market segment which was the least affected by the recession, has increased steadily from 40 million pieces worth an estimated \$18.6 billion in 1980, to 49 million pieces in 1986 valued at \$24.6 billion.

One sign of the buoyant demand is higher auction prices. "After 1980, the public became shy of diamonds," says Francois Curiel, executive vice president of jewelry at Christie's in New York. "Now the public has regained its confidence to buy."



Mr. Curiel says that price per carat paid for some diamonds at Christie's April auction has increased by as much as 25 percent in the last six months, not including the 0.95 carat circular-cut rare red diamond, which fetched a record per-carat price of \$926,000 when it sold for \$880,000, nearly 8 times its pre-auction estimated value.

Few diamond buyers regard their purchases as investments in the pure sense. For jewelry buyers, there is the aesthetic appeal of the pieces coupled with the sense that the stones represent a hedge against inflation. Speculative investors probably make up less than one percent of all diamond buyers, Mr. Lamont estimates.

"In an inflationary environment, diamonds can be a secure way of holding your assets," says Joseph Schussel, president of the Diamond Registry in New York. "Plus, they are a lot easier to carry around than a few bars of gold."

Yet, in many ways, the diamond market is far

trickier and riskier than the markets in precious metals, says Martin Rapaport, dealer and editor of the Rapaport Diamond Report. Every diamond is different, so the value is subjective, he notes.

"You know what you're getting with gold," he says. "But unless a diamond comes with an appraiser's certificate, investors are buying a story and hoping that the diamond's value matches the story."

Precious metals investors also can speculate in gold shares, futures and options, all of which have liquid markets. "There are a range of vehicles available to make it easy for a gold investor to buy and sell," Mr. Rapaport says. "But there is no Comex for diamonds," he noted, citing the principal market for gold futures and options.

Diamond purchasers typically pay a retail price and take possession of the stones. When the times comes to sell, it will be at the prevailing wholesale price, Mr. Rapaport says.

Despite the heavily promoted cachet of diamonds as signs of achievement and expressions of affection, few buyers are indifferent to the outlook for the market. Says Mr. Curiel at Christie's: "As much as I hate to admit it, I've never seen someone buy a diamond without considering whether it's a good investment."

On an elementary level, the value of a diamond is determined primarily by its color, clarity, cut and carat. Color is graded on a scale from "D" through "M." Clarity is rated designated by IF (internally flawless), VVS1 and VVS2 (very, very slightly included) through I3, which denotes more substantial imperfection.

The rule of thumb has been to acquire the best quality that the buyer can afford. But experienced buyers say it is important to look across the spectrum of the market for the best trade-off between price and quality. In some cases, it may be better to buy lesser quality stones that seem undervalued in relation to those of higher quality.

Although the D-flawless is most often cited as the barometer of the market because its rarity ranks it as investment grade, it represents only a specific category

of very rare stones, according to Lloyd Jaffe, chairman of the American Diamond Industry Association. Using its price as a gauge for the whole market would be misleading, he says.

In fact, as prices for the larger and more expensive stones started to decline in the early 1980s, demand for other lower quality, jewelry grade stones appreciated by as much as 20 percent, Mr. Rapaport notes.

"Many people who bought D-flawless stones back in 1980 are still crying because they can't get their money back, while those who bought H-color have seen their stones appreciate," Mr. Curiel says. "Any stone that is well-priced for its quality will probably bring a good return on your investment." He advises buyers to stay away from highly imperfect stones and extremely elaborate cuts.

**T**ODAY'S BUYERS ARE GOING FOR large diamonds. Stones of three carats and more, and stones of unusual natural colors like brown, yellow and pink are much sought after. "Demand for these stones is booming and their prices have hit the roof," says Mr. Rapaport, who suggests that the attention to larger stones may leave bargain opportunities for single carat pieces.

The high prices for large diamonds have more to do with their rarity than their sheer weight. According to Mr. Lamont of the CSO, of the millions of tons of ore sifted each year, only about 40 single carat D-flawless stones are unearthed. The odds against finding larger stones are even greater. That is why a 23-carat diamond is worth so much more than the sum of 23 one-carat stones.

The rarity factor means that prices of large stones move far more dramatically than those of small stones. A pear-shaped D-flawless diamond of 23.44 carats sold for \$47,000 per carat, a total of \$1.1 million, at the Christie's auction in April. Mr. Curiel estimated that six months earlier the same stone would have sold for only \$42,000 a carat, or about \$942,480.

## Side-Stepping Fraudsters With a Little Savvy

**T**HE COMPLEXITY OF THE diamond trade has made it one of the most active areas of investment fraud. "Individuals have to do their own legwork to find out prices of diamonds and their value and the reputation of the person who is selling it to them," warns Robert Friedman, a staff attorney with the Federal Trade Commission in Washington. "It's the only way to avoid getting taken for a ride."

Most important, say industry professionals, is to deal with reputable firms and dealers. Investors should be wary of brokers and investment management companies that solicit wholesale deals over the telephone, particularly if they urge the investor to act immediately.

"If the caller claims the deal is so urgent that there is no time for an investor to get a second opinion, it is a red light to keep away," advises Mr. Friedman. "If the deal sounds too good to be true, it probably is."

Price misrepresentation is a common ruse, says Mr. Friedman, who was one of the attorneys who

successfully prosecuted the International Diamond Corp. in 1982. In that case, federal prosecutors estimated that the company's 40,000 mail-order customers lost a total of \$50 million because of inflated prices on diamonds they purchased and fraudulent claims about the potential returns. A little shopping around and research into the health of the market can go a long way toward spotting over-priced stones.

Before investors buy a stone, they should get an idea of the resale value and the liquidity of their local market, says Martin Rapaport, editor of the Rapaport Diamond Report, which tracks prices. "They should pretend that they want to sell the stone they want to buy," he suggests. "They should call other dealers to see what price the stone could get."

Henry Braun at Anglo-Belge N.V., an insurance broker to the diamond trade in Antwerp, says misrepresentation of the quality of the stone is a common ploy. Sellers lead the buyer to believe the stone is of a much better grade than it actually is.

Individuals can minimize this risk by requesting a

certificate, essentially a detailed map of the stone, from an accredited appraiser, such as the Gemological Institute of America. "Without the certificate, you are trusting the word of the jeweler," says Mr. Braun.

But certificates are not an absolute guarantee, cautions Mr. Friedman: "People have to realize that the appraisal process is a subjective art, not an objective science."

Industry specialists recommend that investors and jewelry collectors take out insurance on the stones, and some even suggest having the certificate identification number or a personal code inscribed on the diamond by laser. The patented micro-inscription process is available on diamonds from Lazare Kaplan International, a cutter and wholesaler. The Gemological Institute also offers the service through an agreement with Lazare Kaplan.

The inscription is invisible to the naked eye and does not harm the stone.

Cynthia Catterson

## On Measuring the Markets

Continued from Page 7

Co., publisher of The Wall Street Journal and co-founded by Charles Dow, maintains a roster of 30 big stocks judged to be representative of the market and U.S. industry.

Occasionally altered, the list currently contains such household names as IBM, General Motors and Exxon. While Charles Dow focused on industrials starting in 1896, the roster now includes some service companies, such as American Express.

To arrive at the average, add up the prices of each issue and divide — but not by 30. While 30 would produce an arithmetic average, like Dow's original formula, the divisor has been periodically changed, usually to keep stock splits and company substitutions from disrupting the average. The divisor was recently set at 0.824.

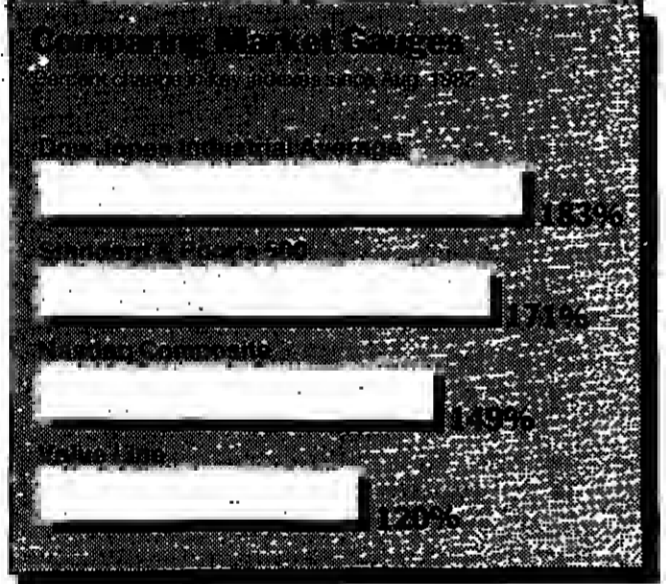
Market professionals, noting the Dow's stocks are widely traded, often use the index to gauge short-term market sentiment. The Dow also can provide historical perspective, for its 30-stock format dates back to 1928, well before the leading alternatives took their current forms.

Still, the Dow has long been dogged by complaints that its stock sample is too small to reflect the entire market accurately, and that the calculation formula can produce distortions. Specifically, critics say, movements in just one stock, particularly high-priced issues, can unduly affect the average.

"It's a lousy index by any normal measure of what an index should be," asserts Christopher Nowakowski, president of Inter-Sec Research Corp. of Stamford, Connecticut, an international pension consultant.

For greater long-term accuracy, many experts recommend the Standard & Poor's 500. A component of the U.S. Commerce Department's index of leading economic indicators, it is based on 400 industrials, 40 utilities, 40 financial institutions and 20 transportation companies.

Maintained by Standard & Poor's Corp., the index has all the Dow stocks plus a number of other major issues. It includes repre-



sentation of some industries not in the Dow, such as toys, and a handful of stocks traded in the over-the-counter market and on the American Stock Exchange. The 30 Dow stocks are all traded on the New York Stock Exchange.

In another departure from the Dow, this index is "capitalization weighted." IBM, with the largest market capitalization, accounts for about 4.7 percent of the index, while the 100 smallest issues in the S&P 500 together account for about 3 percent.

Among institutional investors, the S&P 500 is by far the most common performance benchmark. And John Markese, research director for the American Association of Individual Investors, says this is the index he most often recommends for individuals with diversified portfolios of large and medium-sized stocks. "It's broad-based and widely available," he says.

But no single benchmark is perfect for everyone. "It's important that you select a benchmark that is relevant to your portfolio," says Kelly Houghton, a vice president at Frank Russell & Co., a Tacoma, Washington, pension consultant.

A key consideration, he says, is the size of stocks an investor holds. Both the Dow and the S&P

500 chiefly reflect large capitalization issues, he says, while smaller issues of ten move differently. Last year, for example, his firm's Russell 1000, an index of the 1,000 largest U.S. stocks, posted total returns of 17.8 percent, but the Russell 2000, based on the next 2,000 largest issues, was up just 5.7 percent. The smallest market capitalization of a Russell 1000 issue is \$370 million.

"If you're focus is on small-capitalization stocks, it would be a serious mistake to use the Dow" as a benchmark, he says.

The Value Line Composite Index, based on the prices of about 1,700 stocks tracked by the Value Line Investment Survey, may fill the bill for investors with few blue chips. "The Value Line is more synopses for the little guy," says Martin Zweig, publisher of The Zweig Forecast.

Although about 90 percent of the stocks in this index are traded on the Big Board, experts say the calculation formula gives more weight to "secondary," or non-blue chip issues, than do the S&P or the Dow. In contrast to both of those indexes, the Value Line gives equal weight to the percentage changes in prices of its stocks, regardless of each stock's absolute price or market capitalization.

"If the investor has a portfolio of secondary stocks, this could come closer to his needs," says Stanley Eisenstadt, chief statistician at Value Line Inc. He adds, however, that the index "is not designed as a portfolio measure" but rather as a gauge of price changes.

For investors who focus on the over-the-counter market, the Nasdaq Composite Index is probably the best bet, says Mr. Markese of the American Association of Individual Investors. But T. Rowe Price Associates' New Horizons Fund, which emphasizes emerging growth stocks, has been using the Nasdaq Industrials Index, a company spokesman says, noting that

technology issues comprise about 40 percent of the portfolio.

Of course, indexes can serve as more than portfolio benchmarks; they can offer insight into price trends. Investors might want to periodically compare the differences among broad index performances. Other broad indexes include the New York Stock Exchange Composite Index of the roughly 1,500 common stocks traded on the Big Board, the Russell 3000, consisting of the stocks in the 1000 and the 2000, and the Wilshire 5000.

This latter index, started in 1974, purports to track virtually every stock in the United States, now about 6,000, using a capitalization weighting. Dennis Tito, president of Wilshire Associates of Santa Monica, California, says the firm launched the index after noticing that in one period money managers as a group seemed to outperform the S&P 500 while in another period they tended to lag. "Who's to say whether the S&P or the NYSE Composite are the right samples?" he says.

The broader the index, though, the greater the risk it may mask important trends within the market. It is for this reason that many providers of broad indexes also present the performance of specific groupings of stocks. "Instead of trying to figure out what the market's doing, look for the industries that are outperforming the market," counsels Mr. Erlanger of Advest.


All of which brings up that time-honored question: Is there really a stock market or just a market of stocks?

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the system on cost instead of not worried about," said Vic DePaula, "posals will figure as a major bar-

SMALL STOCKS

London: USM Gains In Stature

By Jeff Ferry

A YEAR AND A HALF AGO, Dr. Jean Shanks took her young medical-service company, JS Pathology, public, selling 15 percent of the equity on London's Unlisted Securities Market.

With a total market capitalization of only £19 million, it was not long before the share price began to rise.

JS Pathology is one of those entrepreneurial success stories that fires the imagination of investors. Of course, for every success in the small-company sector there are several casualties.

Signs abound that the USM, which suffered some embarrassing moments after its creation in 1980, is shedding its unruly image.

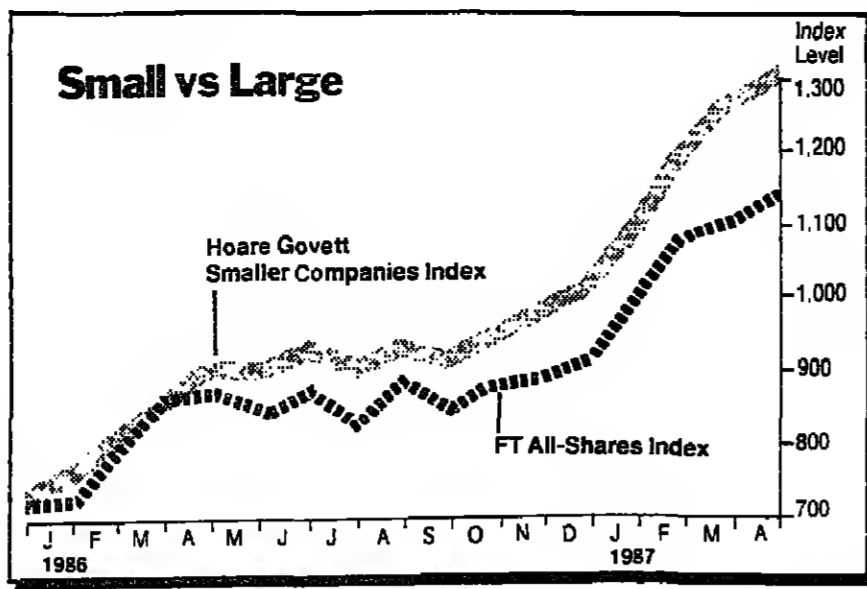
A study published last November by London stockbrokers James Capel & Co. argued that increases in earnings of the companies listed on the junior exchange have outpaced increases on the main stock exchange and have not yet been fully reflected in USM prices.

The conclusion still stands, says Neil Blackley, smaller companies analyst at Capel: "Now is a very good time to invest in smaller companies, provided the portfolio is diversified."

A good spread of different companies is needed because these smaller stocks are more volatile. For small stocks, a diversified portfolio would mean "at least twenty companies, in more than one sector," he says.

Further evidence of the rising interest in this sector came with the introduction by the brokerage Hoare Govett of a small-company index. About 12 percent of the more than 1,300 issues tracked in the extended version of the Hoare Govett Small Companies Index are USM stocks.

James Henderson, smaller companies specialist with Henderson Administration, which manages £7.4 billion, is typical of the institutional investors who have become USM fans.



He went into JS Pathology at the beginning, and still holds the stock. "I've visited many USM companies," he said, "and I've often been quite impressed with the enthusiasm, drive, and management skill of these smaller companies."

But Mr. Henderson's experience shows that even professionals can latch onto problem shares. He cites an electrical equipment company, Godwin Warren, which he bought at 170 pence, and recently sold at 110, after an acquisition the firm made went badly wrong.

Part of the risk, he says, is that despite the rise in interest among the big brokerages, there is still far less information available on these smaller companies than on the big names. "The lesson," he says, "is that you have to monitor the USM companies closely, and often that means you have to do the research yourself because for many of these firms there is nobody in the City doing regular research."

Mr. Blackley says investors should look for



Analyzing blood samples at JS Pathology.

investment firms with analysts who do detailed research on the companies, rather than simply follow the news. Above all, investors should pay close attention to the quality of a company's management.

"Young companies often don't have complete managements. They may lack a group finance director, or somebody responsible for strategic management," he says.

A poor survival rate among the traded companies plagued the USM in its initial years. The junior market became a magnet for high-risk oil exploration ventures and computer-oriented electronics firms. Many of these companies slid into failure in the mid-1980s.

Before last fall's Big Bang, there were fears that the market would fade away for lack of interest as brokerages concentrated their efforts on the larger, more actively traded issues. The small amounts of shares available for trading in many USM issues had always provoked anxiety about the market's liquidity. It still is difficult to acquire shares in some popular companies, and many issues trade infrequently.

The liquidity fears appear to have been largely unfounded. More market makers have come into the USM since Big Bang, actually improving liquidity. "From the small investor's point of view, selling a thousand shares of a USM company is no problem," says Alex Lyle, who manages Allied Dunbar's Smaller Companies Unit Trust.

Even so, the greater institutional presence in the market has not been greeted with uniform enthusiasm, especially when it comes to new issues. Before the Big Bang, companies were allowed to obtain a listing even though their initial offer was in the form of a private placing.

Placing became popular for new listings because the method was less expensive for companies than doing a full-fledged public offering, which entails more documentation and advertising. Also, placings put the shares immediately into the hands of favored institutional investors.

After criticism that private placings were limiting small investors' access to new issues, the stock exchange changed the rules so that a broker can place up to 75 percent of the issue, but the remaining 25 percent must go to a second broker.

STRATEGY

A Case of Splitting Shares

THE BOND MARKET MAY have its Strips and Tigers, but it is stocks that boast "primes" and "scores." These are the components of a little understood investment tool that is designed to appeal to both income-oriented investors and speculators betting on higher prices.

These instruments are derived from splitting a share of common stock in two. One part, called the prime, entitles the investor to receive dividends and some capital appreciation. The other component, the score, gives the purchaser the right to capital appreciation above a predetermined level, usually after a price rise of about 25 percent.

Primes and scores are created when owners of common stock surrender their shares to trusts that have been established by American Shareowner Service. The invention is the brainchild of A. Joseph Debe, president of American, who secured approval from the Securities and Exchange Commission three years ago.

The trust issues a "unit" for each share that includes a prime and a score. An investor can hold both components or sell them separately. Most are traded on the American Stock Exchange.

For example, an investor who tendered shares in Ford, which was trading at \$93.75 last week, would have received a prime that was trading at \$65.75 and a score quoted at \$29.875. This adds up to \$95.625, almost a two-point premium.

"It offers investors a choice that they never had before," says Emmett J. Hartly, vice president and manager of the trusts for Alex Brown & Sons Inc., which is dealer-manager for the trusts.

He notes that conservative investors, who are more interested in preserving capital, are attracted to primes. Those willing to take a significantly higher risk can trade scores. Last year, the share price of Exxon rose 25 percent; Exxon scores rose more than 125 percent.

American investors have been slow to warm to the new instruments, acknowledges Mr. Hartly. Investors in Europe and Asia, who are more familiar with trading warrants, have been big players in scores, he says.

Investors must supply at least 100 shares to qualify for a trust. In addition, they pay a fee up to 1.25 percent of the price of the common stock when entering the trust. Still, investors should keep in mind that they would have to pay

Market Scoreboard

Stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in April.

Table with columns for Exchange, Stock Name, Percent Gain, Price May 29, Percent Loss, Price May 29. Includes sections for New York Stock Exchange, American Stock Exchange, Over the Counter, London Stock Exchange, and Tokyo Stock Exchange.

So far, 20 trusts have been created, each specializing in the shares of a single blue-chip company, such as Ford, General Motors, IBM and Bristol Myers.

Mr. Hartly says eight more will be introduced before the end of June. A special exemption, under which there is no capital gains tax on exchanging stocks for primes and scores, will expire in August.

John Meehan

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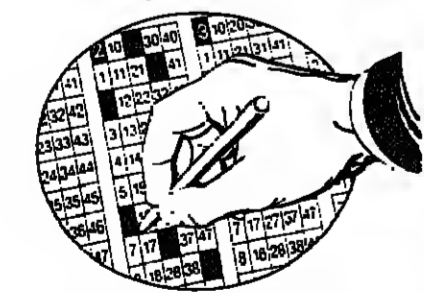
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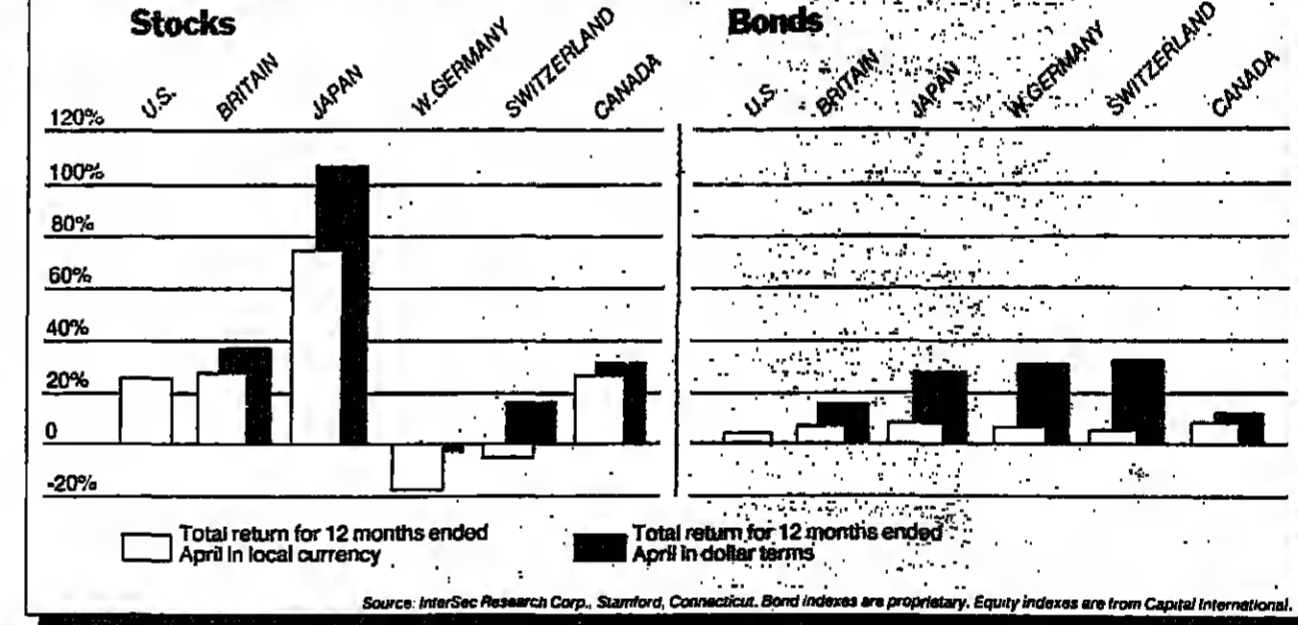
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Total Return for 12 Months

Total return measures both the changes in the prices of securities and the income they provide, either in dividends or interest. Gains or losses were measured by comparing market indexes with their levels a year earlier. The chart does not take into account taxes or inflation.



FUNDS

A Comeback for the Funds of Funds

By Anise C. Wallace

CONSUMERS IN AN affluent society face an abundance of choices, sometimes too many. Too many telephone companies, too many shades of pink lipstick, too many mutual funds.

Mutual funds have proliferated to such an extent that some people are seeking guidance in choosing among them. That has spelled opportunity for investment organizations in the United States. In the past two years, a number of firms have revived the 1960s fund-of-funds approach, in which a money manager invests in a variety of mutual funds, rather than directly in stocks or bonds.

In addition to mutual funds, some trust account managers and private partnerships have adopted this approach. A no-load mutual fund wooing a small investor might require a minimum investment as low as \$250, while a private client might seek a minimum of \$1 million or more.

Investors pay a price to have a mutual fund to pick other funds for them. Many of these funds tend to produce below-average investment results. And some funds have layers of management fees, which make them more expensive than direct investments in mutual funds. The Vanguard Group was one of the first organizations to revive

the fund-of-funds concept when it offered its STAR Fund, which invests in shares of Vanguard's other mutual funds, in 1983. Vanguard said its customers had become confused trying to choose from more than 40 mutual funds. "We wanted to simplify the choice," says Jeremy G. Duffield, senior vice president.

Similarly, executives at T. Rowe Price Associates decided to start two such funds after the number of their mutual funds increased to 24, up from 10 in 1982. The two new funds, which are still in registration with the Securities and Exchange Commission, will invest in shares of Price's growth-stock funds and income-oriented funds.

Individual investors who do not want to be restricted to the mutual funds offered by one organization have other choices. Scudder Fund Distributors recently began offering investors the Rodney Square Multi-Manager Fund, Rodney Square Management Corp. of Wilmington, Delaware, manages the fund, which includes three separate stock portfolios managed, in turn, by nine investment management firms.

In addition, the FundTrust series, distributed by Furrman Selz Mager Dietz & Birney Inc., offers funds that invest in income funds, growth-stock funds, aggressive growth funds, and growth income funds. The Republic National Bank of New York, the investment adviser, invests each fund in shares of 10 to 12 other mutual funds.

Too much diversification can be a bad thing. The more diversified a fund is, the closer it comes to matching the average performance of all stocks. After management fees and stock trading commissions are subtracted, the performance can easily slip below the average. "By definition, they are overly diversified," says Michael Lipper, president of Lipper Analytical Services, which tracks fund performance.

THE PERFORMANCE OF Vanguard's STAR Fund, for instance, has been "reasonable but not stellar," Mr. Duffield acknowledges. "We are not promising spectacular performance, just good steady performance over the long term."

The Vanguard START fund advanced 9.26 percent during the 12 months ended May 28, according to Lipper. In comparison, the average balanced mutual fund gained 12.51 percent in the same period and the stock market, as measured by the Standard & Poor's 500-stock index, was up 17.25 percent. Similarly, the FundTrust funds also underperformed their respective sectors.

Still, Michael Hirsch, senior vice president of Republic, argues that these funds will fare better in a down market or over long market cycles. But there remains the thorny issue of management fees. While Vanguard and T. Rowe Price do not charge an additional fee on

top of the underlying mutual funds fees, some others do. The fund-of-funds approach is being promised to big investors, too. There has been a proliferation of private partnerships that invest in stocks, bonds, options, futures and other financial instruments, such as those managed by Cumberland Partners and New York investors George Soros, John Oppenheim, Martin Perelman and Julian Robertson.

Typically, these aggressively managed partnerships, or "hedge funds," have been available only to wealthy individuals. Their excellent results—compound annual returns of twice the Standard & Poor's 500 index, according to a study of 75 partnerships by Tremont Partners—have made them attractive investments for a number of new investors. But the hedge funds usually charge a fee that can be as high as 20 percent of the profits.

Firms such as Tremont in Stamford, Connecticut, and Stolper and Co. in San Diego are setting up partnerships that invest in seven to 10 other partnerships. Minimum investments range from \$250,000 to \$1 million. For a fee, Tremont and Stolper select the hedge funds, monitor their performance and provide the portfolio accounting for investors. Stolper estimated that as many as 25 of these partnerships of partnerships might be in formation.

MONDAY, JUNE 8, 1987

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EUROBONDS

Scrapping of Minebea Issue Humbles Nomura Managers

By CARL GEWIRTZ

PARIS — Canceling a bond issue in the middle of its syndication is always an embarrassment. Canceling half of an issue while a parallel portion proceeds under the aegis of a different bank must be the equivalent of mortification.

That's what happened last week when Nomura Securities canceled the \$100 million equity-linked Eurobond it was managing for Minebea, the Japanese manufacturer of ball-bearings, while archrival Daiwa Securities maintained the companion \$100 million — bearing nearly identical terms — being offered in the Asia-dollar market.

That the Eurobond was a bomb is not open to question. It was trading at a big discount.

The coupon on the five-year bond was indicated at 1 1/2 percent and the warrants were to be convertible into shares at a premium of some 2 1/2 percent over the prevailing Tokyo Stock Exchange price.

While Nomura's expressed concern for the losses underwriters would suffer is noble, it does not square with the facts. The Japanese securities houses are as competitive and cutthroat as any in the business — and that does not leave room for any sympathy for losses at other firms.

Nomura, for example, did not withdraw the \$17-million issue for Eagle Industry that carries a coupon of 1 1/2 percent and finished the week at 92, or \$920 for each \$1,000 of nominal valuation. Nomura said the issue was too small to cancel because of its 8-percent drop in value.

A more credible reason for the Minebea cancellation is that Nomura was unable to find other banks willing to join the underwriting syndicate, leaving it with the loss if the issue proceeded. But this is not a satisfactory explanation since the Japanese firms are notorious for their willingness to do business at a loss.

This muscle flexing is part of a long-term strategy to win market share (a high spot in the league tables of most active banks) or to establish a relationship with a new client with whom subsequent dealings will be profitable.

Canada reportedly swapped into floating rate dollars at a cost of 55 basis points, just over 1/2 percent below the London interbank offered rate while Sweden paid 70 basis points below Libor for its funds.

In any event, the likelihood of a sizable cash loss for Nomura hardly seems daunting compared to the humiliation of being the first to withdraw a Japanese equity warrant bond and, worst of all, while a companion issue continues to be marketed in the Far East by a competitor.

The more likely explanation — one being rumored in the market — is Minebea's abandonment of seeing its equity warrants trading at a substantial discount.

That's because in late 1985 Minebea became the first Japanese company to be subjected to a hostile takeover from foreign interests — a consortium of U.S. and British investors — who had amassed a 30-percent stake in the company largely by buying cheap stock options (convertible Eurobonds and equity warrants) at an average price of 600 yen per share in the Eurobond market.

The bid failed and the consortium sold its stake at a profit to unidentified Japanese investors. But Minebea would not want to expose itself to a possible replay.

The tandem syndication was a novelty that Victor Co. of Japan also employed. Having close relations with more than one security issuer.

See BONDS, Page 13

Markets End Triple Witching

Morning Expiry For Stock Index

Compiled by Our Staff From Dispatches

NEW YORK — The New York Stock Exchange, Chicago Mercantile Exchange and New York Futures Exchange have announced settlement plans to move the expiration of stock index contracts to the start of the trading day on "triple-witching" Fridays.

The triple-witching days, also called expiration Fridays, occur four times a year, when stock options and index options expire and futures on index options come due on the same day.

Under the new procedures, announced Friday and effective June 18-19, the settlement of the stock index contracts will be based on the opening prices of the component stocks, rather than the closing prices. Trading in the contracts will end at the close of trading the previous day.

"Morning settlement will expose order imbalances to the full sight of public disclosures, ensure the broadest dissemination of market information and facilitate the participation of all interested investors," said Robert Birnbaum, president and chief operating officer of the NYSE.

The new procedures apply to the NYSE Composite Index option, the NYSE Beta Index option, the NYSE Composite Index future, and the NYSE Composite Index futures options.

Also affected are Standard & Poor's 500 Index futures and Standard & Poor's 500 Futures options on the Chicago Merc.

The NYSE listed the new procedures it will follow. The order entry system will open at 7:30 A.M. to accept orders of 30,000 shares or less. All stock orders relating to expiring index contracts must be submitted to the NYSE by 9 A.M.

Imbalances of 50,000 shares or more in 50 large capitalization stocks will be disseminated on news tickers beginning at 9 A.M. Stocks will be subject to regular opening procedures.

The New York Futures Exchange, a subsidiary of the NYSE, said if a stock does not open, June 19 settlement calculations will be based on the last transaction price for that stock.

The NYSE trades the NYSE composite index futures and futures options. (UPI, Reuters)

In Italy, Business Is a Family Affair

Beretta Gunmakers Move Ahead 'Sweetly,' Not Quickly

By Roberto Suro New York Times Service

GARDONE VALTROMPIA, Italy — The inhabitants of this little town at the foot of the Alps started making guns some 500 years ago. It was a natural thing to do: The steep valley walls were loaded with iron ore, and the old Venetian Republic often went to war.

million, down about 20 percent from 1985 and less than 1 percent of total sales.

Beretta ascribes the poor performance to several factors. The dollar's drop has made the company's best-quality guns extremely expensive in the United States. The global market in hunting guns has been flooded

younger siblings. Ugo Beretta's 80-year-old uncle, Giuseppe, is president of the company, though he is virtually in retirement, and about 20 family members hold jobs at Beretta.

But family tradition has not prevented innovation at the factory that produces 250,000 guns a year from a sprawl of buildings on either side of a rocky stream in Gardone Valtrompia. Beretta leads the industry in experimenting with the uses of aluminum alloys in gun parts, for example.



Ugo Gussalli Beretta

by cheaper, less deluxe models. The Italian market has dropped by 30 percent over the past few years as the government places increasingly severe restrictions on hunting in the face of depleted game.

"The course might be a bit impatient with us," Mr. Beretta said, "but when shareholders are primarily relatives you have a certain stability because they are ready to make sacrifices."

Relatives own 64 percent of Beretta's stock — the rest was sold 15 years ago to the Fabrique Nationale, the Belgian arms company, to raise capital and protect against takeover attempts.

Certain family traditions help the Berettas avoid some of the pitfalls of family-run operations. The business is not run democratically. "There has always been a capo whose word was final," Mr. Beretta said.

Mr. Beretta, a dapper, strongly built man, says that is because the arms market is unpredictable. Indeed, Congress decided in 1985 that when the contract is completed in three years, the Pentagon will have to test a range of sidearms — as it did in 1984 — before continuing to buy the Beretta.

Beretta's careful approach extends to its American operation, Beretta U.S.A. To satisfy congressional rules that a certain percentage of goods covered by a Pentagon contract must be made in America, Beretta makes 9mm pistols at a factory in Accokeek, Maryland. It is a relatively small-scale operation. "We had the choice of raising more capital to set up a bigger operation, but we decided to do only as much as we knew we could do well," said Mr. Beretta.

Jacorossi Brothers Build Energy Empire

By John Tagliabue New York Times Service

ROME — "The idea," said Angelo Jacorossi, the head of Fintermica, Italy's fastest-growing and biggest energy conglomerate, "was never to get too enamored of our products."

The three Jacorossi brothers inherited their father's charcoal business in 1952 and turned it into a billion-dollar energy holding company. They have prospered in the cyclical energy business by being flexible: When cheap fuel oil abounded, they marketed the equipment needed to use less of it.

"They're aggressive and clever," said Guido Roberto Vitale, managing director of Euromobiliare, the Milan brokerage that the family will use to take 25 percent of Fintermica public this fall. "They've built a strong company on a very volatile market."

Now the family faces the challenge of sustaining the company's growth as flagging world trade causes Italy's export-oriented economy to slow.

So far, the Jacorossi have proved themselves adept at responding to changing economic conditions. During the 1950s, as cheap oil became widely available, they shifted their emphasis from coal to oil. When methane gas deposits were discovered in the Adriatic sea, the family quickly moved to claim a piece of

that business. The brothers also went into services — developing turkey heating and cooling systems for homes, offices and factories. And they snapped up small electronic companies to offer the sophisticated process controls that became the heart of energy systems.

To finance the company's growth, the Jacorossi devised an intricate net of cooperative agreements. In 1970, for instance, they linked up with Agip,

the government-owned energy company, in a deal that provided them access to Agip money and Agip access to their distribution network.

The Jacorossi's energy empire also grew through acquisitions. Last year, when Texaco decided to leave Italy, the family bought its Italian subsidiary, along with 850 service stations.

To diversify, the brothers purchased a stake in a group that cleans industrial wastes and forged a link with the Ois unit of a United Technologies Corp. to make and sell elevators in Italy. The Jacorossi created Finter-

mica in 1974, to coordinate the companies. Today 38 companies fall under Fintermica's umbrella.

No other energy company in Italy competes with Fintermica on a national scale. The company had sales equivalent to more than \$3.1 billion last year. But its pretax income amounted to \$10.9 million — almost a third less than the year before, because of falling oil prices.

Though widely differing in temperament, the three brothers cooperate closely. Angelo, 54, president of Fintermica, is a bubbling and dynamic person, despite some rough personal experience: In 1979, he was kidnapped by terrorists and held for three months in a tiny underground cubicle until the family paid a \$620,000 ransom. Ovidio, 52, a quiet, thoughtful planner, heads Jacorossi SpA. Giancarlo, 40, has been in charge of Texaco's holdings after the takeover.

Despite the success of their family-style management, the Jacorossi say they must bring in more outsiders to the top ranks of the business if Fintermica is to continue its expansion.

"As family control becomes the great limit to the system, we're gradually professionalizing," said Angelo, using his preferred word for describing the introduction of nonfamily executives. "You know," he said, "my brother I get from the Eternal Father; my partner I choose."

China, U.K. Sign Accord to Settle Property Claims

BEIJING — China and Britain have signed an agreement settling all historical property claims and opening the way for China to issue bonds on the London capital market, the British Embassy said.

China is to pay Britain £23.47 million (\$38.24 million) and Britain pay China \$3.8 million in settlement of claims. China has made similar settlements with the United States and Canada.

China had been barred from issuing bonds in London because it refused to honor pre-1949 debts.

After the announcement, the London Stock Exchange said Friday that trading in Republic of China, or Taiwan, bonds had been suspended indefinitely.

Currency Rates

Table with columns for Currency, Bid, Ask, and other rates. Includes sub-sections for Cross Rates and Other Dollar Values.

Last Week's Markets

Table showing Stock Indices (Dow Jones, S & P 100, etc.), Money Rates (Discount rate, etc.), and Bond Yields (3-month, etc.).

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Oslo Considers Loan Write-Offs At Defense Firm

LONDON — Norway will decide this week whether to ask banks to write off part of outstanding loans to Kongsberg Vaspenfabrik, the troubled state-owned military contractor. The decision could affect Norway's reputation on international credit markets.

state and its board is appointed by the state, the bankers said. Bankers put Kongsberg's total debt at 1.6 billion kroner, of which about 1.2 billion is owed to 33 foreign lenders.

Bankers said they entered the loan agreements in the belief that the loans were in effect guaranteed by the government.

Kongsberg, which posted a loss of 339 million Norwegian kroner (currently \$50.46 million) in 1986, has received injections of capital from the state in recent years.

However, the government balked at a 1.3 billion kroner refinancing proposed by the company, which makes weapons and engines.

The government's proposal requires the approval of 60 percent of the creditors.

Bankers said the government's counterproposal calls for the government to contribute 850 million kroner, with the company's creditors making up the rest.

The Storting, Norway's parliament, is to decide on the proposal this week.

Bankers said they objected to the proposal because it would force them to write down a significant part of the loans and because of the precedent such a move would set.

They said they considered these sums small in the circumstances. Bankers noted that the decision comes at a time when Moody's Investors Service Inc., the U.S. rating agency, is reviewing Norway's coveted Triple-A rating for its long-term foreign debt because of the impact of declining oil prices on the economy.

Europeans Beating U.S. In Freer Japan Markets

TOKYO — Europeans have rushed to capitalize on Japan's two-year-old "Action Program" to remove import barriers, while some Americans concede that U.S. companies have been slow to seize the new opportunities.

role in Japan's financial and capital markets. Michael Lake, a spokesman for the European Community, said, "It's fair to say of the action program as laid out by the Japanese that the Japanese have carried out virtually all of it, and accelerated some of it."

Foreign analysts and executives say that many informal barriers remain, but they generally give Japan high marks for carrying through specific market-opening promises under the action program.

But he said that Japanese domestic demand still needed to grow, the distribution system needed modernizing and special interest tariff barriers must be removed.

"Part of the problem is that Americans don't take advantage of the changes, while European exporters have jumped," said Henry Sampson, publications director for the American Chamber of Commerce.

However, Mr. Sampson said much of the blame for the trade imbalance lay with Americans. "In a lot of ways, we've been fat, dumb and lazy," he said. "Europeans have been making progress, Americans have not."

European exports to Japan were up 8.6 percent in yen terms and 34 percent in dollar terms in the first quarter of this year, to 565 billion yen (\$3.92 billion), according to Finance Ministry figures.

For example, West Germany accounted for about 30 percent of the 69,357 imported cars sold in Japan in 1986. U.S. companies exported only 2,345 cars to Japan last year, sharply down from the 1979 peak of 16,730.

U.S. exports to Japan were down 10.3 percent in yen terms, and up just 10.8 percent in dollar terms, to 1.07 trillion yen from the same period last year, their ministry said.

Those figures were reached despite a far greater depreciation of the U.S. dollar against the yen compared with European currencies, a trend that should have made U.S. products more competitive in Japan than European goods.

The 85-point, three-year action program to open Japan's markets to foreign goods was announced in July 1985 by Prime Minister Yasuhiro Nakasone.

When the program is fully implemented next year, tariffs on 1,860 industrial and agricultural items will have been reduced or eliminated, and 88 measures enacted to ease certification and technical standards for imports.

The program also promises for foreign companies easier bidding on government procurement contracts, selling services and playing a

promise of licenses for securities subsidiaries and the eventual opportunity to buy more seats on the Tokyo Exchange, executives at many U.S. securities firms said they were disappointed with the scale of greater participation they had been promised in government bond issues.

Finance Moves Criticized

The government's recently announced measures to improve foreign companies' access to Japanese financial markets fall short of many U.S. firms' hopes, The New York Times reported from Tokyo.

While U.S. banks welcomed the promise of licenses for securities subsidiaries and the eventual opportunity to buy more seats on the Tokyo Exchange, executives at many U.S. securities firms said they were disappointed with the scale of greater participation they had been promised in government bond issues.

# Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London, Tel. 01-623-1277. Prices may vary according to market conditions and other factors.

June 5

## Dollar Straights

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Deutsche	10	10	104.83	8.43	104	8.43	104
Deutsche	10	10	104.83	8.43	104	8.43	104
Deutsche	10	10	104.83	8.43	104	8.43	104
Deutsche	10	10	104.83	8.43	104	8.43	104
Deutsche	10	10	104.83	8.43	104	8.43	104

## Australasia

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Austl Com Bk	10	10	103.10	8.31	103	8.31	103
Austl Com Bk	10	10	103.10	8.31	103	8.31	103
Austl Com Bk	10	10	103.10	8.31	103	8.31	103
Austl Com Bk	10	10	103.10	8.31	103	8.31	103
Austl Com Bk	10	10	103.10	8.31	103	8.31	103

## Canada

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
B C Hydre	10	10	103.80	8.38	103	8.38	103
B C Hydre	10	10	103.80	8.38	103	8.38	103
B C Hydre	10	10	103.80	8.38	103	8.38	103
B C Hydre	10	10	103.80	8.38	103	8.38	103
B C Hydre	10	10	103.80	8.38	103	8.38	103

## Scandinavia

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Denmark	10	10	103.80	8.38	103	8.38	103
Denmark	10	10	103.80	8.38	103	8.38	103
Denmark	10	10	103.80	8.38	103	8.38	103
Denmark	10	10	103.80	8.38	103	8.38	103
Denmark	10	10	103.80	8.38	103	8.38	103

## United Kingdom

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Abbey Nat	10	10	103.80	8.38	103	8.38	103
Abbey Nat	10	10	103.80	8.38	103	8.38	103
Abbey Nat	10	10	103.80	8.38	103	8.38	103
Abbey Nat	10	10	103.80	8.38	103	8.38	103
Abbey Nat	10	10	103.80	8.38	103	8.38	103

## United States

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
A T & T	10	10	103.80	8.38	103	8.38	103
A T & T	10	10	103.80	8.38	103	8.38	103
A T & T	10	10	103.80	8.38	103	8.38	103
A T & T	10	10	103.80	8.38	103	8.38	103
A T & T	10	10	103.80	8.38	103	8.38	103

## Europe

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103

## Non-European

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Canada	10	10	103.80	8.38	103	8.38	103
Canada	10	10	103.80	8.38	103	8.38	103
Canada	10	10	103.80	8.38	103	8.38	103
Canada	10	10	103.80	8.38	103	8.38	103
Canada	10	10	103.80	8.38	103	8.38	103

## Supranational

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Council Eur	10	10	103.80	8.38	103	8.38	103
Council Eur	10	10	103.80	8.38	103	8.38	103
Council Eur	10	10	103.80	8.38	103	8.38	103
Council Eur	10	10	103.80	8.38	103	8.38	103
Council Eur	10	10	103.80	8.38	103	8.38	103

## Western Europe (Other)

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Austr Contr	10	10	103.80	8.38	103	8.38	103
Austr Contr	10	10	103.80	8.38	103	8.38	103
Austr Contr	10	10	103.80	8.38	103	8.38	103
Austr Contr	10	10	103.80	8.38	103	8.38	103
Austr Contr	10	10	103.80	8.38	103	8.38	103

## Dollar Zero Coupons

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103

## DM Straights

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103

## ECU Straights

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103

## DM Zero Coupons

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Euro B	10	10	103.80	8.38	103	8.38	103
Euro B	10	10	103.80	8.38	103	8.38	103
Euro B	10	10	103.80	8.38	103	8.38	103
Euro B	10	10	103.80	8.38	103	8.38	103
Euro B	10	10	103.80	8.38	103	8.38	103

## Yen Straights

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103
A D B	10	10	103.80	8.38	103	8.38	103

## Weekly Sales

Issuer	Con	Mat	Price	Yld	Cur	Yld	Cur
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103
Austria	10	10	103.80	8.38	103	8.38	103

## Wall Street Review

NYSE Most Actives	AMEX Most Actives
High	High
Low	Low
Chg	Chg
Vol	Vol


NYSE Sales	AMEX Sales
Total for week	Total for week
Week ago	Week ago
Year ago	Year ago
Jan 1 to date	Jan 1 to date
1986 to date	1986 to date

NYSE Divs	AMEX Divs
This Wk	This Wk
Last Wk	Last Wk
Advanced	Advanced
Declined	Declined
Unchanged	Unchanged
New Highs	New Highs
New Lows	New Lows

## Chicago Exchange Options

Figures as of close of trading Friday, June 5

Option & price	Calls	Puts	Option & price	Calls	Puts
Jun Jul	50	55	100	100	100
Jul Aug	50	55	100	100	100
Aug Sep	50	55	100	100	100
Sep Oct	50	55	100	100	100
Oct Nov	50	55	100	100	100



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New International Bond Issues

Compiled by Laurence Desvillettes

Table with columns: Issuer, Amount (millions), Mat., Coup. %, Price, and Terms. Includes sections for Floating Rate Notes, Fixed-Coupon, and Equity-Linked.

BONDS: Nomura Stumbles

(Continued from first finance page) ties firm and unwilling to offend one by giving business to the other. Companies are opting to divide their business. Minetec separated its issue by markets while JVC split its by maturity. It appointed Nomura to market \$100 million of five-year equity warrant bonds with an indicated coupon of 1 1/2 percent and Yamaichi to market \$50 million of seven-year bonds with an indicated coupon of 2 1/2 percent.

Paris Options Market Has Big Potential

But as Opening Approaches, Inexperienced Brokers Scramble for Expertise

By Jacques Neher Special to the Herald Tribune. PARIS — The Chicago Board Options Exchange may not be a hot tourist attraction, but it has become a mecca for French stockbrokers in recent weeks. Scores of Paris brokers have been investing their time and money in Chicago to witness how an options market operates. In preparation for the debut of options trading at the Paris Bourse later this month. But as excited as they are about the potential for their own options market, set to start with contracts based on six major French stocks on June 27, none holds any illusions about evaluating the raucous Chicago exchange, where daily volume often exceeds a half million contracts.

Bonds Recover From Volcker Shock

By Michael Quint New York Times Service. NEW YORK — Treasury note and bond prices rose for the third consecutive day Friday, returning to levels that prevailed before the market clearly overreacted to the Volcker announcement, especially since nobody has any good reason to believe that Alan Greenspan will be anything but prudent as head of the Federal Reserve Board, said one trader. Analysts said Friday's price gains also reflected a smaller than expected gain in nonfarm payrolls for May and speculative purchases of securities by dealers who were sellers earlier this week but wanted a more balanced position in advance of the economic conference in Venice, Italy, this week.

U.S. Consumer Rates

Table with columns: Tax Exempt Bonds, Money Market Funds, Bank Money Market Accounts, Home Mortgages, and Source: New York Times.

Japanese Banks Open Tap Programs

By Carl Gewirtz International Herald Tribune. PARIS — The London branches of Mitsubishi Trust & Banking Corp. and Fuji Bank last week became the first Japanese banks to arrange multitranché tap programs for issuing certificates of deposit. Both have appointed Merrill Lynch to arrange programs of \$500 million each, or the equivalent in other currencies. Using the tap system the borrower has total flexibility as to the timing and amount of paper offered to the market. Under the programs, the banks will be able to issue paper in maturities from one to five years. Unlike traditional bank-issued CDs, these will be listed on the Luxembourg stock exchange and will pay interest semiannually rather than annually.

U.S. CREDIT MARKETS

Monday, when the markets were shocked by the announcement from Alan A. Volcker's resignation from the Federal Reserve Board. By late in the day, the treasury watched 8 1/2 percent Treasury bonds due in 2017 were offered at 101 5/32, up 29/32, to yield 8.64 percent. On Monday, after falling more than 3 points in reaction to the announcement that Mr. Volcker will leave the Fed in August, the newest 30-year Treasury issue was offered at 98 2/32, to yield 8.93 percent. "The market clearly overreacted to the Volcker announcement, especially since nobody has any good reason to believe that Alan Greenspan will be anything but prudent" as head of the Federal Reserve Board, said one trader.

Treasury Bonds

Table with columns: Maturity, Bid, Ask, Yield, and Wk. ago. Lists various Treasury bond maturities and their market data.

NOTICE OF PURCHASE BOWATER INDUSTRIES PLC

9 1/2% Bonds due 15th May 1992. NOTICE IS HEREBY GIVEN to bondholders that US \$2,000,000 nominal amount of the above issue was purchased in the market in the period prior to 15th May 1987 and applied in respect of the seventh mandatory redemption instalment payable on that date. Bowater Industries plc Bowater House Knightsbridge London SW1X 7NN

Scientific-Atlanta, Inc. Innovative Products and Systems For... Satellite Communications, Cable Television, Test Instrumentation-Telecommunications, Microwave, Vibration, Telemetry and Tracking, Low Frequency Signal Analysis, Energy Management. Scientific-Atlanta, P.O. Box 105027, Dept. AR, Atlanta, GA 30348.

DREYFUS INTERCONTINENTAL INVESTMENT FUND N.V. DECLARATION OF DIVIDEND. At the Annual General Meeting of the Dreyfus Intercontinental Investment Fund N.V., held in Curaçao on May 14, 1987, the Stockholders of the Fund, acting upon the recommendation of the Fund's Board of Directors, declared a dividend of U.S. \$0.12 per share to Stockholders of record on May 29, 1987. The dividend is payable on June 9, 1987 to holders of bearer shares upon surrender of Dividend coupon No. 17 as attached to the share certificate, to one of the offices of the paying agents listed below. The distribution is being made from net Investment Income.



BANKS: U.S. Treasury Aides, Responding to Global Competition, Seek to Encourage Growth of Giant Banks

(Continued from Page 1)
fear they would be put out of business.

Thirty years ago the United States had 15 of the world's largest banking institutions, but global dominance by American banks has slipped dramatically. Only two U.S. banking companies, Citicorp and BankAmerica, are now ranked in the world's 25 largest. Japan has 14, including the world's four largest banks. Two German, three British and four French banks complete the list.

"If we are going to be competitive in a globalized financial services world, we are going to have to change our views on the size of American institutions," Mr. Gould said. "People are going to have to accept that some big American financial institutions will need more capital to be competitive."

Mr. Gould acknowledged that any policy promoting the creation of large financial institutions encounters deep-seated sentiments that date to the founding of the republic. But he thinks the nomination of Mr. Greenspan could provide an important stimulus for change. Mr. Greenspan contends that many of the laws restricting

commercial banks severely limit their ability to adapt to a changing marketplace. The Reagan administration has met frustration in its efforts to lessen regulation of banking, largely because Paul A. Volcker, the current Federal Reserve chairman, has firmly opposed any move that would begin to break down the barriers that prohibit large non-banking companies from owning banks. Mr. Volcker has also been rather grudging in his support of changes that would allow interstate banking and the underwriting of securities by banks.

Mr. Volcker has strong ties to prominent legislators, particularly Senator William Proxmire, the Wisconsin Democrat who is chairman of the Senate Banking Committee. Mr. Proxmire believes that a decentralized system with 14,000 commercial banks helps assure competitiveness within the United States.

But after Mr. Volcker departs in August, the federal government's major regulators will be speaking with a nearly unified voice. Both Robert L. Clarke, comptroller of the currency, and L. William Seidman, chairman of the Federal De-

posit Insurance Corp., support in principle the Gould approach, as do several Fed governors.

In the interview, Mr. Greenspan said "the separation of commerce and banking at this stage is simply not helpful" because it cuts off one important source of new capital. He added that the declining profits of the leading American banks had hampered their ability to raise capital in stock offerings. That leaves them only one practical source for large injections of funds: the industrial sector of the economy.

Mr. Greenspan and banking experts note that market forces are compelling the banks to try to exploit loopholes in the regulations that keep them out of the securities business. For example, all the banks in major financial centers have set up securities operations overseas.

Large nonbanking concerns, such as Sears, Roebuck & Co., are also testing the current limits by using limited-service banks to gain a foothold in banking.

The Gould plan for superbanks comes in response to a significant loss of market share by U.S. banks and a general decline in the quality of their assets. It also is an attempt

to deal with what bankers say is the disadvantages they face in competing with foreign institutions that operate in a less-regulated environment.

According to a study by the First Manhattan Consulting Group, foreign banks are more than twice as profitable in their lending operations than the largest U.S. banks. Moreover, the consulting concern says that commercial banks have lost considerable market share in both corporate and consumer loans. From 1981 through 1986, the industry's share of consumer debt fell from 47 percent to 44 percent, while its share of outstanding corporate debt fell from 36 percent to 31 percent.

The situation is causing banks generally to take greater risks to maintain profits, according to James M. McCormick, president of First Manhattan Consulting.

For regulators, that trend is a worry. "I'm afraid that if the structural barriers are not modified, our banks will become institutions that nobody particularly will need to do business with," Mr. Clarke said, adding that bank profitability, as measured by return on assets, has fallen 30 percent since 1981.

Mr. Gould admits that changes in Glass-Steagall and the Bank Holding Company Act are likely to come only after long debate or after a significant threat to the financial system forces Congress to re-examine the bank regulatory structure.

Mr. Gould contends that a more competitive U.S. banking system

would lower the price of bank services to consumers. He and other bankers also maintain that superbanks will not replace small local institutions.

The growth strategy pursued in recent years by Chemical New York Corp., the fourth-largest American banking institution, embraces some of the concepts in the Treasury plan.

"Looking 10 years down the road," said Richard S. Simmons, vice chairman of Chemical, "we are going to be very few world-class bank players, and to be one of them, you are going to have to have a very large base in the United States."

The Chemical executive predicts that by the mid-1990s there will be five major United States banks with assets of about \$500 billion each. Assets of Citicorp, the nation's largest bank, now total \$195 billion.

"It's hard to grapple with the concept of a very big bank," he said. "But when we wake up and realize that financing is being controlled by a cartel of foreign banks, the American people are going to be very unhappy."

Nissho Iwai Halts Vietnam Trade

TOKYO — Nissho Iwai Corp., the first private company from an industrial democracy to set up an office in Hanoi, has reportedly suspended its trade with Vietnam after a protest from the Association of Southeast Asian Nations.

Nissho Iwai, a Japanese trading company, decided Friday to call home its representative in Hanoi, Asahi Shimbun reported. In April, ASEAN, which groups Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand, said Nissho Iwai's presence undermined ASEAN's efforts to have Vietnam withdraw from Cambodia.

U.S. Dollar Will Resume Its Decline Over Long Term, Dealers Predict

TOKYO — The U.S. dollar may keep its value against other major currencies over the next few months but it is likely to fall again in the longer term, according to several senior currency traders.

They spoke here Saturday at a news conference that followed this year's meeting of the Foreign Exchange Dealers Association.

"The honeymoon period may last for a few months," said David Cronin, secretary-general of the association.

"After that the dollar could be in for a period of decline if the United States fails to take action to change its economic policy," said Mr. Cronin, who is head of treasury at Allied Irish Bank.

He said that he hoped the Venice summit meeting, beginning Monday, would announce action to improve the world economic situation. "If that is the case," he said, "the dollar will strengthen in the short term." But investors would re-examine the situation in a few months, he added.

"Watch the Japanese investors," Mr. Cronin said. The last sustained weakness in the dollar, analysts recalled, was provoked by reduced Japanese dollar investments.

Hans-Jens Trede, president of the association, said it was generally felt that the dollar would stabilize around prevailing rates of 140 to 146 yen for the time being.

"But I am still somewhat pessimistic about how long this will last," said Mr. Trede, a member of the managing board of Bankhaus Hermann Lampe of West Germany. He said the dollar may fall further towards the end of this year or the beginning of next.

"In the short term, the dollar could appreciate slightly," said Peter Mack, foreign exchange manager at the London-based European Brazilian Bank. But he added: "I'm looking for a lower dollar in time. I'm looking for less than 140 yen."

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Table with columns: Symbol, 100s, High, Low, Close, Net Chg. Lists various stocks like GAT, GATC, GATD, etc.

Table with columns: Symbol, 100s, High, Low, Close, Net Chg. Lists various stocks like A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z.

Table with columns: Symbol, 100s, High, Low, Close, Net Chg. Lists various stocks like AA, AB, AC, AD, AE, AF, AG, AH, AI, AJ, AK, AL, AM, AN, AO, AP, AQ, AR, AS, AT, AU, AV, AW, AX, AY, AZ.

Table with columns: Symbol, 100s, High, Low, Close, Net Chg. Lists various stocks like BA, BB, BC, BD, BE, BF, BG, BH, BI, BJ, BK, BL, BM, BN, BO, BP, BQ, BR, BS, BT, BU, BV, BW, BX, BY, BZ.

The Daily Source for International Investors. Includes logo for The Daily Source and contact information.

SPORTS

SPORTS BRIEFS

2 Women's World Track Records Bettered

MOSCOW (Combined Dispatches) — Natalia Lissovskaya of the Soviet Union broke her own world shot put record with a throw of 22.60 meters (73 feet 7 inches) at a track meet here Sunday. Lissovskaya, 24, set the record of 22.53 meters in the Black Sea resort of Sochi on May 27, 1984.

Yoo Retains WBA Junior Flyweight Crown

SEOUL (AP) — South Korean Yoo Myong-woo stopped Benedicto Murillo of Panama in the 15th round Sunday to retain his World Boxing Association junior flyweight title.

Kite Has 1-Shot Lead in Kemper Open Golf

POTOMAC, Maryland (UPI) — Tom Kite, seeking his first victory of 1987, survived three straight bogeys on the back nine to take a one-stroke lead over Chris Perry after Saturday's third round of the Kemper Open golf tournament.

Quotable

Chi Chi Rodriguez, leading money winner on the seniors golf tour: "If I'd putted like a Toyota. (L47)
Moses Malone of the Washington Bullets, on whether, when he retires, he would have a farewell tour like that of Julius Erving: "Now, I'm going to retire by telephone and ask them to mail in the gifts. (L47)
Former umpire Ron Luciano, on why he preferred to work the bases: "I couldn't tell the pitches. I didn't know the difference between a slider and a curve. I knew a fastball because it came in rapidly. (L47)

PEANUTS



BLONDIE



BEEBLE BAILEY



ANDY CAPP



WIZARD OF ID



REX MORGAN



GARFIELD



Bet Twice Wins Belmont as Alysheba Finishes 4th

By Steven Crist

ELMONT, New York — Bet Twice, a narrow runner-up in the Kentucky Derby and the Preakness, reversed those losses with a vengeance to Saturday's 119th running of the Belmont Stakes to deprive Alysheba of racing's Triple Crown.



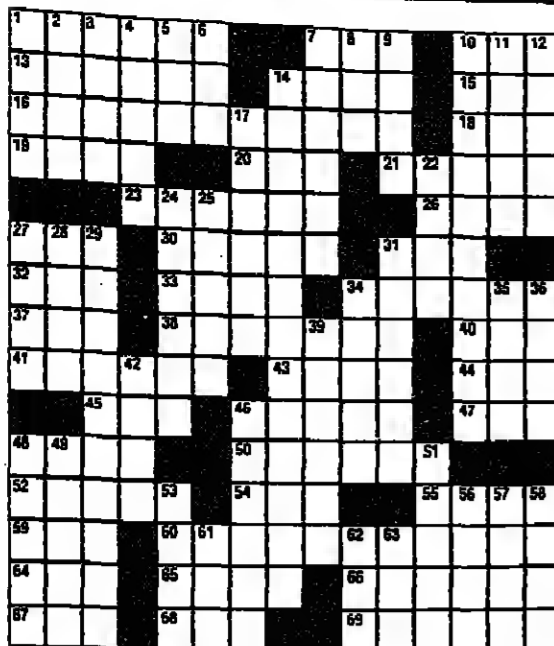
Craig Perret, aboard Bet Twice, glancing back at the top of the stretch in the Belmont Stakes.

Under Craig Perret, Bet Twice took the lead before traveling a mile (1,600 meters) and stretched it into a 14-length runaway over Cryptoclearance with Guleb finishing a nose back in third place. Alysheba, who had won the Derby by three-quarters of a length and the Preakness by half a length over Bet Twice, finished fourth as the 4-to-5 favorite, missing a \$5 million payday by a huge margin and a \$1 million bonus by inches.

Alysheba, who would have earned purses and bonuses totaling \$5 million had he become the first Triple Crown winner since Affirmed in 1978, was steeled in traffic turning for home, but the incident was minor and did not affect his chances of victory.

Bet Twice, trained by Jimmy Roll and the 8-to-1 fifth choice, covered the mile and a half in 2:28-1/5. The son of the Nijinsky II stallion Sportin' Life and the Dusty Canyon mare Golden Dust became the first Derby and Preakness runner-up to win the Belmont since Arts and Letters in 1969.

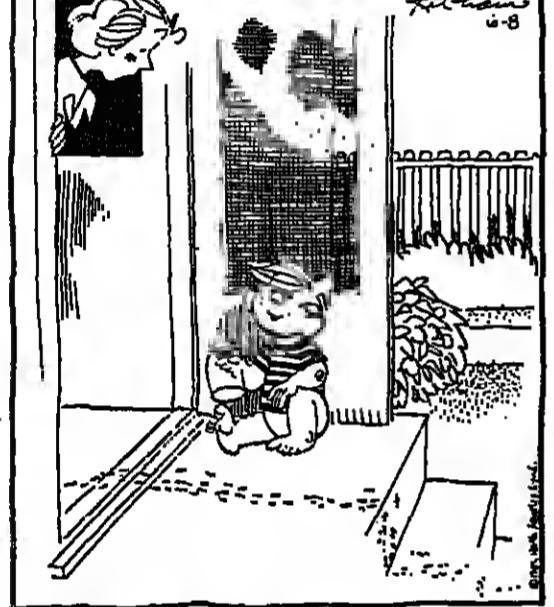
Bet Twice earned \$329,160 from the \$348,600 Belmont purse, and also narrowly won the inaugural Triple Crown bonus of \$1 million, raising his career earnings to more than \$2.3 million. Bet Twice ended the series with 11 points toward the bonus, which is figured on a 5-3-1 point system for the first three finishers in each race. Had Alysheba (who earned 10 points winning the first two legs) finished second, he would have won the bonus; had he



ACROSS
1 Philadelphia pro eleven
7 Child's toy
10 Hoover, for one
13 Loser to Cleveland: 1884
14 Neighbor of the Keys
15 Dutch commune
16 This provides interest
18 Pea holder
19 Locale
20 "Pinafore"
21 Steal away to wed
23 Sandwich sausage
26 Movie dog
27 Also
30 Effort
31 Do slalom
32 Actor Marvin
33 Adolescent
34 Tried to shed weight
37 Chart
38 Alphabetical listings
40 Fury
41 Scents
43 Incomplete statements
44 Quarter of four
45 D.A.R. counterpart
46 Billiard shot
47 Boy in "Little Men"
48 Young herring
50 Sals
52 Toolshop machine
54 It's often cast
55 Russian hui
59 Wedding words
60 This is needed for 18 Across
64 Tarnish
65 Profu
66 Sauté meal and cook
67 Use a lever
68 Before, 10
69 Keats
69 Aslant
DOWN
1 Wanes
2 Russian gang
3 Thomas Wolfe
4 Prefers
5 Finish
6 Observe
7 Cough
8 Honshu sash
9 Top of the monk
10 Testimony under oath
11 Take in a founding
12 Euripides play
14 Interchange of thoughts
17 Synchronized
22 Erie or Huron
24 Arrow poison
25 Mortgage
27 —maier
28 In the vicinity of
29 Place for storage
31 Nun
34 Thuck
35 Sea bird
36 Legal document
39 Hindu groups
42 School subj.
48 Child's make-believe food
49 "M\*A\*S\*H" character
51 Rope material
53 Flange
56 Narrow cut
57 Cold pipe
58 Mimicked
61 Unit of corn
62 Teamster org.
63 Prefix with cycle or angle

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DENNIS THE MENACE



JUMBLE THAT SCRAMBLED WORD GAME

A word game section with a grid of letters and words to be unscrambled. Words include UROCC, SCOUF, TUNBOY, CORNAY, RAD, and HEST.

WEATHER

A weather forecast table with columns for Europe, Asia, Africa, Latin America, North America, Middle East, and Oceania. It lists cities and their weather conditions.

MONDAY'S FORECAST — CHANNEL: Rough. FRANKFURT: Showers. Temp. 15-22. LONDON: Cloudy. Temp. 14-18. NEW YORK: Partly cloudy. High 70. Low 50. PARIS: Partly cloudy. Temp. 15-21. ROME: Partly cloudy. Temp. 18-24. SAN FRANCISCO: Partly cloudy. Temp. 58-72. TOKYO: Partly cloudy. Temp. 22-28.

WORLD STOCKS IN REVIEW / Via Agence France-Press

Amsterdam

The Amsterdam stock exchange showed signs of improvement last week, but trading was quiet because of uncertainty over the economic climate, inflation and interest rates.

Frankfurt

The Frankfurt stock market suffered from the dollar's vagaries last week, failing to add to the previous week's gains.

Hong Kong

Enthusiastic buying of property stocks lifted the Hang Seng Index to three successive highs on the Hong Kong stock exchange last week.

Milan

Trading was quiet on the Milan stock exchange last week, with volume down by 10.74 percent from the previous week.

London

Two record closes for the Financial Times 30-share index were reached early last week, with brokers confident of a Conservative victory in the June 11 general election.

Paris

Monetary and political factors combined last week to drive values down by more than 4 percent on the Paris Bourse.

Singapore

The Straits-Times industrial index climbed 23.54 points last week to an all-time high of 1,243.71 on Friday.

Tokyo

Tokyo share prices rose again last week, with the key market indicator, the Nikkei stock average, topping 25,000 yen for the first time.

Zurich

Trading was irregular on the Zurich stock exchange last week, initially upset by the resignation of the chairman of the U.S. Federal Reserve Board, Paul A. Volcker, but later turning steady on reports that Alan Greenspan, Mr. Volcker's successor, intended to make no major changes in monetary policy.

COMBINED CURRENCY STOCK INDEX GRAPH

